The Economist

JULY 12TH–18TH 2008

www.economist.com

The rise of David Cameron

China, Tibet and Taiwan

Banks that are ripe for takeover

Barack Obama heads to the centre

Why fish don't freeze

Club Med

Why Europe should look south

Home
This week's print edition
Daily news analysis
Opinion
All opinion
Leaders
Letters to the Editor
Blogs
Columns
KAL's cartoons
Correspondent's diary
Economist debates
World politics
All world politics
Politics this week
International
United States
The Americas
Asia
Middle East and Africa
Europe
Britain
Special reports
Business
All business
Business this week
Management
Business education
Finance and economics
All finance and economics
Economics focus
Economics A-Z
Markets and data
All markets and data
Daily chart
Weekly indicators
World markets
Currencies
Rankings
Big Mac index
Science and technology
All science and technology
Technology Quarterly
Books and arts
All books and arts
Style guide
People
People
Obituaries
Diversions
Audio and video
Audio and video library
Audio edition
Research tools
All research tools
Articles by subject
Backgrounders
Economics A-Z
Special reports
Style guide
Country briefings
All country briefings
China
India
Brazil
United States
Russia
Cities guide

Print Edition July 12th 2008

Club Med
The Mediterranean, north and south, is forming a single economic unit. Europe should make it a powerful one: leader

Previous print editions

Jul 5th 2008
Jun 28th 2008
Jun 21st 2008
Jun 14th 2008
Jun 7th 2008

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

at Islamabad

India's manual scavengers
Clean-up

Middle East & Africa

Israel and Iran
Coming to a city near you?

Israel
The battle for the territories

Zimbabwe
After the storm, the stalemate

Kenya
A finance minister resigns

Europe

Russia's presidency
The odd couple

Missile defence
Getting to first base

Women in Germany
Working mothers, unite!

Austria's government
A grand unravelling

Charlemagne
Europe's Tory nightmare

Britain

Violent Britain
Island savages

Youth unemployment
Labour's flawed record

Energy prices
Foot off the pedal

North Sea production
Ebbing

Church of England
When compromise fails

Bagehot
Clegg, over?

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

The G8 summit in Hokkaido
They came, they jawed, they failed to conquer

Population control
The marathon's not over

Political immunity
Pulling back the blanket

Financial markets
The usual suspects

Food in rich countries
A bad habit they can't give up

Soviet cars
Spluttering to a halt

Obituary

Jesse Helms

Economic and Financial Indicators

Overview

Output, prices and jobs

The Economist commodity-price index

Female employment

Trade, exchange rates, budget balances and interest rates

Markets

Mergers and acquisitions

Politics this week

Jul 10th 2008
From The Economist print edition

Iran test-fired a series of missiles, including the *Shahab*-3 that has sufficient range to hit Israeli cities. The tests were condemned by American and Israeli officials, adding still further to the tension between Iran and the West over Iran's nuclear ambitions. France's Total suggested that it would pull out of a gas development in Iran because it was too risky to invest in the country. See article

AP

Iraq's prime minister, Nuri al-Maliki, said that his government would not sign any new agreement with America governing the future role of American troops in Iraq unless it included clear deadlines for their withdrawal. Any new agreement would come into force at the end of the year. The American defence secretary, Robert Gates, insisted that a withdrawal must "depend on the situation on the ground".

The **Kenyan** finance minister, Amos Kimunya, stepped down "to facilitate" an inquiry into the controversial sale of a luxury hotel in Nairobi. The government stressed that this was only a temporary move, but the resignation of President Mwai Kibaki's close ally is a blow to Kenya's new government of national unity. See article

The G8 group of rich countries, meeting in Japan, condemned the conduct of the recent run-off election in **Zimbabwe**, stating that they did not accept the "legitimacy" of President Robert Mugabe's government.

Seven United Nations peacekeepers in the Darfur region of **Sudan** were killed, and more than 20 injured, in an ambush on their convoy. A combined UN-African Union force has only 9,000 of a projected 26,000 men on the ground and the attack may have been carried out to deter countries from sending more.

Reality check

The Senate approved a controversial **surveillance bill** that grants immunity to telecoms companies that co-operated in a warrantless wiretapping programme. Barack Obama voted for the legislation, causing him some grief with his supporters. In February he promised the "grass roots" that he would vote against it.

Meanwhile, Mr Obama's attempt to move to the political centre on topics ranging from abortion to Iraq met resistance from the Democratic left. In comments picked up by a microphone he thought was switched off, **Jesse Jackson** said he would like to "cut [Mr Obama's] nuts off" for "talking down to black people" about faith-based programmes. Mr Jackson later apologised. See article

Murky waters

EPA

A suicide attack on India's embassy in Kabul, the **Afghan** capital, killed 41 people, including two Indian diplomats. Afghan officials blamed the Taliban, but suggested they were abetted by Pakistan's intelligence service. See article

Some 700 mainland-Chinese tourists took the opportunity to visit Taiwan at the start of regular weekend charter flights across the **Taiwan Strait**. Both sides hailed the event as a big breakthrough in relations. See article

America's George Bush and France's Nicolas Sarkozy confirmed they would attend the opening ceremony of the **Olympic games in Beijing**. Mr Sarkozy had earlier indicated that his attendance depended on an improvement in

China's behaviour in Tibet.

The ruling coalition in **India** was reduced to a parliamentary minority after Communist parties withdrew their support. They did so in reaction to the announcement by Manmohan Singh, the prime minister, that India would soon receive the various approvals needed to implement its nuclear-co-operation agreement with America. Mr Singh said his government could still win a no-confidence vote. See article

The opposition in **South Korea** agreed to end the boycott of parliament it had maintained for more than a month in protest at the government's lifting of a ban on imports of American beef. President Lee Myung-bak sacked three of his ministers in an attempt to recoup his lost popularity.

Six-nation talks in Beijing on **North Korea's** nuclear programme resumed after a nine-month hiatus. This followed North Korea's submission last month of a dossier purportedly detailing the programme.

Getting bolder

Gunmen attacked a guard post outside the American consulate in **Istanbul**. Three police officers and three of the assailants were killed in the ensuing gun battle. Turkish terrorists linked to al-Qaeda carried out a wave of suicide-bombings in the city in 2003.

America signed an agreement with the Czech Republic that will base a tracking radar system in the country and form part of a **missile defence shield** that America wants to build in eastern Europe. Russia's president, Dmitry Medvedev, said he was "extremely upset" at the development. See article

Austria's governing coalition fell apart. It had been formed by the Austrian People's Party and the Social Democrats in early 2007, but the partners repeatedly clashed over a range of policies, including taxes and pensions. Europe proved to be the last straw. See article

A gay parade in **Budapest** was broken up by hundreds of far-right Hungarian nationalists, who threw petrol bombs at police trying to separate them from the marchers. Gay parades in Bulgaria and the Czech Republic have also been attacked by extremists recently.

Oil's not well

Mexico's government released figures showing that output at Cantarell, the country's largest oilfield, has fallen by a third over the past year, and total oil production fell by 10%. The government is trying to reform the law to allow private investment in oil, but faces much opposition.

Labour groups in **Peru** staged a general strike in opposition to the liberal economic policies of President Alan García's government. The strike attracted patchy support in Lima, but rather more in the southern Andes, where protesters blocked the railway to the Inca ruins at Machu Picchu. See article

EPA

Argentina's embattled president, Cristina Fernández de Kirchner, won a narrow victory when the lower house of Congress voted by 129 to 122 to support her decree raising taxes on agricultural exports.

Ecuador confiscated two television stations, along with 200 other businesses. It said they belonged to a conglomerate that owes the government more than $660m after the collapse of a bank a decade ago. The owners of the TV stations accused the government of threatening freedom of expression and the finance minister resigned in protest. See article

Business this week

Jul 10th 2008
From The Economist print edition

Robert Gates, America's defence secretary, overturned a decision by the air force to award a $35 billion contract for new flying tankers to an aircraft made jointly by Europe's **EADS** and **Northrop Grumman**. **Boeing**, which had been tipped to win the deal, complained about the air force's procedures in assessing the rival projects. The congressional agency that investigates government spending broadly agreed. The bid for the tanker will now revert to an "open competition" until a new contract is awarded.

Siemens announced that it would cut 4% of its global workforce, or 16,750 jobs. The German engineering conglomerate also plans to consolidate its 1,800 legally separate entities and 70 regional companies. The moves are likely to upset labour unions in Germany.

Phillip Bennett, the former boss of **Refco**, received a 16-year jail sentence for defrauding investors. Once one of the world's top futures and commodities brokers, Refco collapsed in October 2005 when details of the fraud emerged, sending ripples through the world's financial centres.

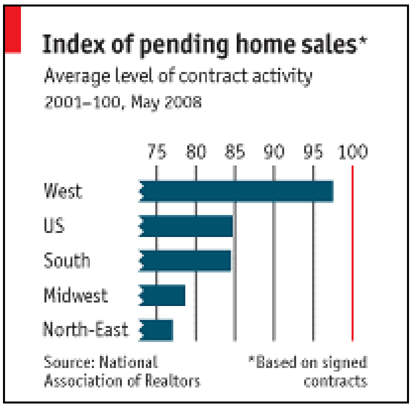
Ongoing financial turmoil

Ben Bernanke proposed to extend the **Federal Reserve's credit facility** for cash-strapped Wall Street banks until at least early next year. The Fed offered the facility to investment banks in March as part of a package of measures to boost liquidity. It had been due to expire in September. See article

Fannie Mae and **Freddie Mac** endured a turbulent week. The share prices of both government-backed mortgage giants were buffeted by speculation that a change in accounting rules would require them to raise billions of dollars in new capital. Regulators and the Treasury soothed investors, saying they would not let Fannie and Freddie fail.

Bradford & Bingley, a troubled British bank, saw its share price fall below the price of a planned rights issue. Hoping to avoid another Northern Rock fiasco, regulators talked to Britain's biggest banks about underwriting the offering.

No end in sight



An index compiled by America's National Association of Realtors that measures pending sales of **previously owned homes** fell by 4.7% in May, more than had been expected. In Britain, meanwhile, more **homebuilders** announced swingeing job cuts; Barratt Developments said it was shedding around a fifth of its staff. See article

A subsidiary of **CNOOC**, a Chinese oil producer, agreed to buy **Awilco**, a Norwegian oilfield-services company, for $2.5 billion. The deal is CNOOC's biggest in the West since its proposed takeover of Unocal fell foul of American politicians in 2005.

The battle rumbled on for control of **Norilsk Nickel**, a Russian metals company. Its board of directors elected Vladimir Potanin, who controls around 30% of Norilsk's shares, as its new chairman, a decision that was immediately challenged by Mr Potanin's business rival, Oleg Deripaska. Mr Deripaska's **RUSAL**, a big aluminium producer, wants to merge with Norilsk to create a mining giant that can compete with the likes of BHP Billiton.

NBC Universal joined with two private-equity firms to buy **Weather Channel**. Worth some $3.5 billion, the deal is probably the largest leveraged buy-out in America this year. Weather Channel reaches most homes with cable TV and its website is hugely popular: analysts forecast a bright outlook for the consortium.

Under attack from Microsoft, **VMware** sacked Diane Greene, its chief executive, and cut its sales forecast for the year. The company makes “virtualisation” software that enables a single computer server to run several tasks, improving the efficiency of a business’s computer systems. VMware has risen spectacularly over the past few years, but competition has increased. Its new boss is a 14-year veteran of Microsoft.

Microsoft threw its weight behind **Carl Icahn’s** campaign to oust the board at **Yahoo!** when it held out the prospect of fresh takeover talks if new management was put in place at the company.

A heady brew

In a separate hostile takeover bid, **InBev**, a Belgian brewer, intensified its efforts to win **Anheuser-Busch** by nominating an alternative board. The slate included Adolphus Busch IV, who wants the Busch family to negotiate with InBev. He is an uncle of Anheuser’s chief executive. The maker of Budweiser beer responded with a lawsuit alleging that InBev was misleading shareholders.

Abu Dhabi’s investment fund bought a massive stake in the **Chrysler Building**. The Manhattan skyscraper will still be controlled by Tishman Speyer Properties, however, because the company controls the land on which the structure stands.

KAL's cartoon

Jul 10th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

Economist.com OPINION LEADERS

Club Med

Jul 10th 2008
From The Economist print edition

The Mediterranean, north and south, is forming a single economic unit: Europe should make it a powerful one

UNDER imperial Rome, the roads in cold, wet Britannia were no straighter than those in sweltering north Africa. The same sestertius could buy a lampful of oil. Across the southern Mediterranean and northern Europe alike, Latin was the lingua franca—1,500 years before anyone had coined the term. Under the Treaty of Rome, however, the European Union has behaved as if the Med were a frontier, rather than an organising principle. As often as not, it has turned its back on the crescent that stretches from Morocco to Turkey, as a cradle of instability and terrorism. Sometimes the southern Med's main export has seemed to be boatloads of illegal immigrants.

This weekend at a summit in Paris France's president, Nicolas Sarkozy, wants to heal the rift. Some 40 heads of state and government from the EU and the southern and eastern Mediterranean will meet to create a new club, called the Union for the Mediterranean. Despite Mr Sarkozy's bombast, Club Med will have a modest start: the French propose a secretariat, which they will jointly head with Egypt, and money to help finance ventures on solar energy, anti-terrorism and the inevitable cultural exchanges.

Beyond the platitudes and projects lies the germ of a brilliant idea. Something is stirring around the Med as globalisation takes root. Growth and investment have leapt. There is a new openness to trade and foreign money. The members of Club Med no longer need to glower across the table at each other. Instead, there is the prospect of the youth and vigour of the southern Mediterranean combining with a rich, ageing north. Despite the recent surge, the southern Med still takes less than 10% of all the FDI from the EU. This offers a tantalising prospect—though one reason why Club Med matters is that it is fraught with dangers.

Dido's cement

The EU has looked south before, in an initiative called the Barcelona Process, which dates back 13 years and failed to live up to its promises. Hopes are higher today, however, because the politicians gathering in Paris are following a path that is increasingly well trodden by business (see article). FDI in the countries along the Mediterranean shore, from Morocco to Turkey, has grown six times since the turn of the century, to $59 billion in 2006—ahead of Latin America's Mercosur ($25 billion) and not far short of China ($69 billion). At the same time, the growth in the region's GDP is running at 4.4% a year—slow by China's standards, admittedly, but it has been accelerating as Europe has slowed.

Although Turkey, Israel and Egypt still dominate, most of the region has shared in this prosperity. Oil and

gas are partly to thank, but investment is spread among financial services, telecoms, retailing and construction. Look at the car factory Renault and Nissan are planning in Morocco. Or the new container port outside Tangiers that will soon be bigger than Long Beach, on America's west coast. Much of the money comes from Europe, as did the €8.8 billion ($12.9 billion) France's Lafarge invested in Egyptian cement. But Americans are making aerospace parts; Arabs are spending petrodollars on property and construction; Brazilians are investing in fertilisers and textiles; Indians in IT and pharmaceuticals.

There is strength in such diversity, and there needs to be. The resurgent Med has a lot still to overcome. With exceptions, notably Israel, the region is plagued by poor infrastructure, an ill-educated workforce and unemployment. Unlike eastern Europe, which built trading links under communism, the Med countries barely trade with each other, so they lose the benefits of specialisation. And then there is the politics. The Europeans are right to look askance at the looming crisis of succession in Egypt, beleaguered Israel, unborn Palestine, divided Lebanon, fundamentalist Islam in Morocco, bombs in Algeria, Muammar Qaddafi's bizarre Libyan autocracy, the risk that the Turkish courts declare the ruling party unconstitutional. That unfinished list is already depressingly long.

The EU is not free of troubles either. Those who favour Turkey's membership of the EU fear that Club Med is designed to fob it off with second-class citizenship. At first Mr Sarkozy schemed to include only the EU countries with a Mediterranean coast—a ploy to create a French-dominated counterbalance to the apparently German-dominated east. After a vicious row with Angela Merkel, Germany's chancellor, Mr Sarkozy agreed to include the entire EU. That was right, if only because Germany pays much of the EU's bills.

Sunday's summit matters, because it is a step towards healing such wounds—and because it sets the tone. Will the Mediterranean union seize the moment, or will it be strangled by southern politics and European squabbles?

Mare nostrums

The first test is whether Mr Sarkozy is willing to see Club Med as more than a scheme to burnish French glory. If he wants the new union to thrive, he will have to accept that it is for everyone's benefit, and let business do its work. This means a free-trade area that opens the EU to goods and services from the south—including the farm produce that France is making a fuss over in the world trade talks.

The second is for the EU to use its patronage to boost spending on infrastructure, promote trade in the region and clean up politics. One lesson from eastern Europe is that, with incentives, countries will start to sort themselves out. For the Mediterranean, those incentives should include access to funds and markets. The logic of enlargement is that it could even include the faint possibility of membership of the EU itself (if the union were to admit non-Europeans). But none of that will count for much unless the southern Med chooses prosperity.

The world sometimes writes off Europe as the old continent, well past the vigour of youth and doomed to gentle decline; at the same time it condemns many of the teeming economies of the southern Med as chaotic backwaters. Old and young can make a powerful combination. The creation of the Union for the Mediterranean is hardly the rebirth of imperial Rome, but it may just be the start of something exciting.

Economist.com OPINION LEADERS

David Cameron

Now what?

Jul 10th 2008
From The Economist print edition

David Cameron has pulled off a remarkable political turnaround. But he has more to do

THERE are moments in political history when the tectonic plates can be felt grinding away beneath the surface. For Britain, this seems to be one such. New Labour has reigned since 1997, when John Major's post-Thatcherism gave way to Tony Blair's silver-tongued advocacy of better public services at home, liberal intervention abroad and the glories of globalisation everywhere. Even after he left office a year ago, the Conservative opposition looked doomed, and its smooth, centrist leader, David Cameron, destined to be another in a sequence of short-lived Tory would-be prime ministers.

Yet the shift in British politics is now palpable. Gordon Brown, Mr Blair's successor, is a workaholic with thus far a tin ear for public discourse; Britain's much-vaunted economy, which he ran proudly for a decade as chancellor, is tanking; and, if opinion polls are any guide, Mr Cameron looks like being a shoo-in at the next general election, due by June 2010.

This astonishing change of fortune raises two big questions. Is it durable enough to make Mr Cameron prime minister? And would he prove a good one?

Credit where it's due

The short answer to the first question is: probably. The Tories need to make huge gains to win a parliamentary majority at the next general election, but they are making inroads. Labour's slump in the polls—it is around 20 points behind in most surveys—may be too deep for it to recover from.

An easy explanation for this reversal is that Mr Cameron has been lucky: he happened to be in charge when the circumstances were propitious for a Tory revival. That, however, is simplistic. Mr Cameron deserves credit for making his party eligible to benefit from Labour's woes. He launched a campaign to change the Tories' image, ditching the archaic attitudes to race and sexuality that once made voting Conservative unthinkable for many Britons; he also expanded his party's policies on poverty and social justice. These days, when it attacks him as a hardline right-winger, Labour often seems to be fighting a foe that no longer really exists.

Of course, there is time for the Tories to fluff it. There has been an outbreak of Tory "sleaze"; Boris Johnson, the Conservative mayor of London elected in May, still seems somewhat gaffe-prone; maybe

recession would play to Mr Brown’s dour strengths. Above all, June 2010 is a long way off. But nobody now would rather start the race in Labour’s shoes: to that extent, the next election is already Mr Cameron’s to lose.

Hence the importance of the second question. Some doubt Mr Cameron’s potential as prime minister on the ground that he does not have enough coherent policies. That is not fair. It is too early to expect the Tories to have a detailed and costed programme for government; indeed, if they had produced one, Mr Brown would probably have stolen more of their ideas by now. Anyway, the Conservatives have plenty of fairly sensible policies, for example on family-friendly employment rules and education reform.

What they don’t have is a prospectus for a new Conservative revolution. But then Mr Cameron is not that sort of Tory (see article). Beneath his modernising glitz and occasional new-age gobbledygook, he is an old-fashioned, pragmatic gradualist. On the key question of public-service reform he in essence pledges to pick up the agenda of choice and competition in schools and hospitals where Mr Blair left off.

Back in business, but what sort of business?

Even allowing for that ideological modesty, however, there are three big gaps that Mr Cameron needs to fill. One concerns foreign policy—not Iraq and Afghanistan, where his policy is unlikely to differ much from Mr Brown’s, but Europe. He says that should the European Union’s Lisbon treaty be in effect by the time he takes office—not impossible, despite Ireland’s rejection of it in a referendum last month—he would somehow redress the transfer of sovereignty that it entails. This newspaper thinks the Lisbon treaty is a useless muddle and should be binned. But, if the treaty goes through, Britain may have to accept it as it is or leave the union (see article). Mr Cameron needs to recognise that.

The second weakness is in economics. Mr Cameron has hitherto argued that the main job of a Tory government would be to solve the country’s social problems. But managing Britain’s economy out of a downturn now looks at least as urgent. On taxation, the Tories’ proposal to share the proceeds of growth between public spending and tax cuts seems less useful now there is no growth to share. They want the state to do less, but they also imply that they want to spend more in some areas, such as defence and health care. Given that government in Britain chews up 45% of GDP, one percentage point more than in Germany and five more than the OECD average, the accent should be on shrinking the state.

And what exactly does Mr Cameron’s team, the least commercially savvy Tory front bench for decades, think about business? Keen to be seen as green, he has hedged his bets on both nuclear energy (which he should support) and the expansion of Heathrow (which he should oppose). And in an era of rising protectionism he has been an infrequent defender of globalisation. Once again, winning the next election may not require greater economic clarity, but governing will.

The final reservation about the Tories concerns personnel. As Mr Blair once outpaced his party, so Mr Cameron and the tiny clique around him have moved further and faster than many Tory activists. If he is elected, he may struggle to find enough like-minded MPs to form a government in his image.

That, needless to say, is a problem Mr Cameron would like to have. In his favour, the more voters see of him the more they like him—whereas the reverse is true of Mr Brown. That, however, may not be the choice that the electorate ultimately faces: anxious Labour MPs could try to replace Mr Brown with yet another leader, especially if the party loses a by-election on July 24th in Labour’s Scottish heartland. Such a desperate manoeuvre might disrupt Mr Cameron’s advance on Number 10. But it would also testify to his considerable success thus far.

Economist.com OPINION LEADERS

China, Taiwan and Tibet

Fraying at the edges

Jul 10th 2008
From The Economist print edition

In neither Tibet nor Taiwan are things going as well for China as its leaders would like

Reuters

IT HAS been a good few days for the self-esteem of China's leaders. Their hopes of winning acceptance for their view of Tibet and of coaxing Taiwan into the embrace of the "motherland" both seem to have become a little more likely. But look closer. In fact both remain distant dreams.

As President Hu Jintao was feted at the G8 summit in Japan, China secured two important affirmative RSVPs to the opening of the Olympic games in Beijing next month. George Bush was never likely to be a party-pooper. But France's president, Nicolas Sarkozy, had suggested his attendance hinged on China's behaviour in Tibet. He, too, will turn up, bearing tribute to China's growing sporting, commercial and diplomatic clout.

Over Taiwan, the progress is more than symbolic. The opening of regular charter flights across the Taiwan Strait, allowing thousands of mainland tourists to visit the island, is the most important of a number of confidence-building measures since the victory of Ma Ying-jeou and his China-leaning party, the Kuomintang (KMT), in the presidential election in March (see article and article). After the bellicose sniping at the pro-independence administration of Chen Shui-bian, China seems positively lovey-dovey towards his successor.

On Tibet, China appears to have won over foreign governments by making only the most token of concessions. It has reopened low-level talks with representatives of the Dalai Lama, the exiled spiritual leader. But it has barely even pretended that these might lead to a political settlement. At the latest round it refused even to issue an anodyne joint statement, lest this be deemed to accord its Tibetan interlocutors some sort of official status. In Tibet it has quelled unrest and dissent with the time-honoured repression it knows best: mass detention, heavy security and "patriotic education campaigns" (see article). China can boast that "calm" has returned.

The calm of the prison yard, however, is no long-term solution to the Tibet problem, which is that large numbers of Tibetans feel economically disadvantaged and politically ignored. Order imposed through violence, or the threat of violence, will only heighten pro-independence sentiment.

The same holds true for Taiwan, even during the present honeymoon. China has never renounced what it says is its right to take Taiwan by force if peaceful blandishments fail. Adding weight to the threat are hundreds of missiles trained on Taiwan. Such bullying helps ensure that a huge majority in Taiwan opposes imminent unification. The vote in March was indeed partly a reaction to the recent cross-strait tensions, and an endorsement of closer economic ties with the mainland at a time of faltering growth. But the KMT won not because it was promising unification, but because it seemed to have the better tactics for perpetuating Taiwan's de facto independence.

Sovereign remedies

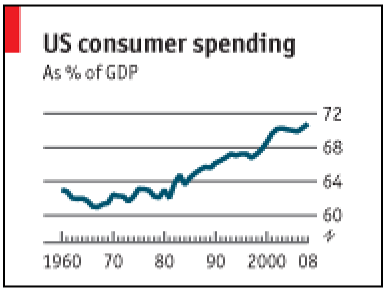
Chinese officials understand that well enough. But in helping generate popular euphoria around the latest "breakthroughs" with Taiwan, they are taking a risk. Taiwan is a big unfinished nationalist project at a time when Chinese nationalism is gaining potency. The anger recently directed at foreigners over their criticism of China's behaviour in Tibet could turn on China's own government. Its present policy relies on Taiwan's refraining from any "provocation". This is dangerously fragile: better to make clear that "reunification" is a long-term goal, to be achieved, if at all, through peaceful means. As with Tibet, that means being ready to show a little flexibility over that most sensitive of issues, sovereignty. China's emergence, as symbolised by the Olympics, will otherwise continue to be hampered by the instability in its own backyard.

The economy

On the ropes

Jul 10th 2008
From The Economist print edition

Beware a frightening noise in America and Britain: consumers' purses snapping shut



LIKE Rocky Balboa, the boxer portrayed on film by Sylvester Stallone, Anglo-Saxon consumers have taken a lot of punishment in recent years. And each time, just like the pugilistic thespian, they have come back fighting. At last, however, it looks as if they are about to be knocked out (as alas happened, cinematic cognoscenti might recall, at the start of "Rocky III").

The problem is the range of blows falling on American and British shoppers. Academics and economists continue to debate how important the role of house prices, and mortgage-equity withdrawal, was in sustaining demand during the early years of this decade. No matter. Consumers who were using their houses as ATMs cannot do so any longer. And if a decline in their housing wealth does not hurt them, surely the fall in the stockmarkets (20% off their peaks) will do so.

Perhaps consumers could shrug off the decline in their wealth if they felt confident at work. But the American economy has shed jobs in each of the first six months of the year. In Britain the headline unemployment number has not risen much yet but some sectors, such as builders, are laying off staff. And even those workers who have kept their jobs are not feeling flush. Thanks to the jump in food and fuel prices, headline inflation rates have risen sharply. For central bankers it is good news that pay claims have not kept pace. That way economies can avoid a 1970s-style wage-price spiral. But the corollary has been that workers are suffering from wage cuts in real terms.

Consumers could overcome even that handicap if they were able to keep borrowing. But the credit crunch is likely to put a stop to that. Mortgage approvals have already fallen sharply and surveys indicate that banks are eager to restrict other types of consumer lending.

Holes in the walls

This bad news has not gone unnoticed. The June survey of American consumer sentiment showed the most depressed outlook since 1980. So why has there not been much effect on retail sales, or indeed on economic growth?

In America a tax rebate landed in people's bank accounts in May and acted like a dose of smelling salts on a groggy bruiser. Although Merrill Lynch estimates that some 90% of the rebate was saved, there was still enough money around to boost sales of food and electronics. In Britain consumers may have experienced a Wile E. Coyote moment: having walked off the edge of the cliff, they have only just looked down. Marks & Spencer and other retailers have seen a sudden deterioration in sales in recent weeks, perhaps connected to a similar plunge in the housing market. In America department stores such as Neiman Marcus, Saks and JCPenney have all reported declining sales in their most recent results.

The corollary of high consumer spending has been that savings rates have been correspondingly low. Perhaps that was because Americans and Britons felt the housing and stockmarkets were doing the saving for them; perhaps it was because credit was cheap and easy to get. Neither is true any longer. So the low savings rates recorded in the first quarter—0.6% in America and 1.1% in Britain—can surely not be sustained. If savings rates grind their way back up to the 7-8% seen in the early 1990s, consumer demand will be slow for several years to come. And that is a heavy burden, since consumption is such an important part of both economies; in America, it made up more than 70% of first-quarter GDP.

What can the authorities do? America has just enough firepower for another tax cut, which must look

tempting in an election year. The Federal Reserve must also be hoping that its interest-rate cuts, which began last September, will start to be felt in the second half of this year (monetary policy usually takes 12-18 months to work). In Britain the size of the budget deficit limits the room for tax cuts and high inflation makes it awkward for the Bank of England to reduce interest rates.

Although it may be good in the long term for the Anglo-Saxon economies to reduce their dependence on consumers, the short term could be nasty if the shift is rapid. Either way, like Rocky's face after 15 rounds in the ring, it won't be pretty.

Iran and The Economist

Silent no more

Jul 10th 2008
From The Economist print edition

An Iranian student protester, sentenced to death for appearing on our cover, has escaped to America

Reuters

NINE years ago, Ahmad Batebi appeared on the cover of *The Economist*. He was a 21-year-old student, one of thousands who protested against Iran's government that summer. He was photographed holding aloft a T-shirt bespattered with the blood of a fellow protester. Soon afterwards, he was arrested and shown our issue of July 17th 1999. "With this", he was told, "you have signed your death warrant."

During his interrogation he was blindfolded and beaten with cables until he passed out. His captors rubbed salt into his wounds to wake him up, so they could torture him more. They held his head in a drain full of sewage until he inhaled it. He recalls yearning for a swift death to end the pain. He was played recordings of what he was told was his mother being tortured. His captors wanted him to betray his fellow students, to implicate them in various crimes and to say on television that the blood on that T-shirt was only red paint. He says he refused.

He was sentenced to death for "creating street unrest". But after a global outcry, the sentence was commuted to 15 years in jail. He speculates that his high profile made it hard to kill him without attracting negative publicity. For two years, he was kept in solitary confinement, in a cell that was little more than a toilet hole with a wooden board on top. He was tortured constantly. Only when he was allowed to mingle with other prisoners again did he begin to overcome his despair.

He suffered a partial stroke that left the right side of his body without feeling. He needed medical attention. The regime did not want to be blamed for him dying behind bars, he says, so he was allowed out for treatment. Three months ago, on the day of the Persian new year, he escaped into Iraq. On June 24th he arrived in America.

He spoke to *The Economist* on July 7th. Looking at the picture that sparked his ordeal, he says that another man in his place might be angry, but he is not. Mr Batebi is a photographer himself. He says he understands what journalism involves. Had we not published the picture, he says, another paper might have. Looking at the same picture, his lawyer, interpreter and friend Lily Mazahery says she is close to tears: in it, the young Mr Batebi's pale arms are as yet unscarred by torture.

The protests Mr Batebi took part in nine years ago frightened Iran's rulers. The students were angry about censorship, the persecution of intellectuals and the thugs who beat up any student overheard disparaging the regime. Mr Batebi thinks Iran could well turn solidly democratic some day. In neighbouring states, religious extremism is popular. In Iran, he says, the government is religiously extreme, but the people are not.

He is cagey about how exactly he escaped. But he says he used a cellphone camera to record virtually every step of his journey, and will soon go public with the pictures and his commentary. Meanwhile, he seems to be enjoying America. He praises the way "people have the opportunity to become who they want to be". Shortly after he arrived, he posted a picture of himself in front of the Capitol on his Farsi-language blog, with the caption: "Your hands will never touch me again."

On green energy, Singapore, Iran and Israel, Microsoft, migrants, the Democrats

Jul 10th 2008
From The Economist print edition

Greener energy solutions

SIR – The analysis of carbon capture and storage (CCS) in your special report on the future of energy was unduly pessimistic (June 21st). In addition to being a proven small-scale technology, CCS is an important step in tackling climate change. It simply imitates nature, using the same natural trapping mechanisms that have kept large stores of CO2 and other gases underground for millions of years. CO2 storage is already happening successfully worldwide and should pose few health or environmental hazards.

Storing gas underground is not new. There are hundreds of natural-gas storage sites; many are in the densely populated parts of Europe. The CO2 storage demonstration projects that you mentioned in Canada and the North Sea have so far shown absolutely no leakage. Since 1996, 1m tonnes of CO2 from the Sleipner gasfield have been stored successfully every year 1km (0.6 miles) below the North Sea without any detectable discharge. Technical advances should reduce the cost of CCS, which can help us bring emissions down and avoid a catastrophic temperature rise of 2°C before 2100.

Mike Stephenson
Head of energy
British Geological Survey
Nottingham

SIR – Much of the improvements in energy in the near future will come from changes in demand, not “gleeful hairshirtedness”. I do not agree with your dismissive statement that, “a lot of efficiency improvements just happen in the background, as part of most businesses’ continuous search for cost savings”. Changes will happen when new technologies come to market over the next decade.

Compact fluorescent technology, for example, is viewed cynically, yet 22% of all electricity is used for lighting, and the steady transition to solid-state lighting will make it possible to build fewer power plants. Other gains will come from smarter data centres, networks and buildings, as well as cars. Many of these technologies were close to economic break-even before the recent rise in energy costs; now they look inevitable.

Michael Witherell
Vice-chancellor for research
University of California, Santa Barbara
Santa Barbara, California

Bloggers in Singapore

SIR – Contrary to your article about politics on the web, no bloggers have been jailed in Singapore for “posting materials that those in power dislike” (“Blog standard”, June 28th). There is no such offence under Singaporean law and many websites post highly critical views of the government. However, two bloggers have been jailed and another put on probation for posting virulently racist remarks that could damage racial harmony. Singapore is a multiracial, multireligious society, yet its threshold as to what is objectionable in such matters is higher than in some European countries, which make it an offence to deny the Holocaust.

Another blogger currently faces charges for writing that a female High Court judge had “prostituted” herself in a case that she was trying. Unless we uphold the standing and reputation of the judiciary, there is no basis for the freedoms that citizens expect, either on the internet or in the real world.

K. Bhavani
Press secretary to the minister for information, communications and the arts
Singapore

Israel's options

SIR – Your leader on Israel's sabre-rattling military exercises and the possibility of a pre-emptive strike against Iran's nuclear facilities ended by calling for much tougher sanctions against Iran ("It's later than you think", June 28th). Yet it is Israel that illegally occupies the West Bank and Gaza, possesses nuclear weapons and has undertaken military "pre-emptive" action on several occasions, such as against Palestinian guerrillas in Lebanon and air strikes against non-military nuclear facilities in Syria and Iraq. Iran on the other hand, has no nuclear weapons and has never been an aggressor against a neighbour. It is Israel that should be sanctioned.

David Seddon
Norwich

SIR – Despite arguments to the contrary, the lack of action by the United Nations and other international bodies has given the government of Israel very limited options. The Israelis can wait until Iran obtains nuclear weapons, which it will surely use to try to destroy the Jewish state, or it can attempt to remove them. The rest of the world sat by during the Holocaust and Arab efforts to squash the fledgling state of Israel. Even the most inept Israeli politicians know that, unless Iran can be kept from developing a bomb, modern Israel will only be a brief and tragic chapter in world history.

Nelson Marans
Silver Spring, Maryland

Being hard on Microsoft

SIR – Bill Gates is a very smart fellow and handled Microsoft extremely well ("The meaning of Bill Gates", June 28th). It is right for you to heap praise on him, but we should also recognise that he was handed the deal of the century when IBM abandoned the PC. Moreover, Microsoft's "innovation" consisted mostly of imitating Apple's graphical user interface, copying Netscape's browser and buying a word processor. The real innovators were those who cloned the open-source hardware that IBM left out on the street and changed a semi-obsolete platform with 64K memory into what we have today.

Vic Arnold
Westerly, Rhode Island

SIR – Windows is flawed garbage and arguably cost the global economy hundreds of billions of dollars in lost productivity. The losses come from those Microsoft moments that have become so familiar, such as time lost through Windows crashing and recovering, as well as the deadweight loss from the battalion of support staff that are needed to help Windows users.

Larry Meissner
Portland, Oregon

Migrants finding their way

SIR – You predicted that immigration to America and Europe will decline ("A turning tide?", June 28th). But you focused on voluntary migrants, ignoring the forced migration of people fleeing conflict, natural disasters and environmental degradation. In Africa, forced migration is substantial, primarily because of conflict, and environmental factors are looming. The number of natural disasters caused by extreme weather is rising and will be exacerbated by climate change.

Rapid population growth is also placing great pressure on scarce resources, especially fresh water. Although it is true that most migrants move towards nearby countries (so most African migrants remain in Africa), many will make it to America and Europe.

Wim Naudé
Senior research fellow
World Institute for Development Economics Research
Helsinki

Locating the Democrats

SIR – Much has been made of the Democrats' recent kiss-and-make-up rally with Barack Obama and Hillary Clinton in the aptly named Unity, New Hampshire ("Humbug all round", June 28th). I'm only relieved the meeting did not take place in Intercourse, Pennsylvania, though Truth or Consequences, New Mexico, may have been more suitable.

Oscar Ford
Carson City, Nevada

David Cameron

Spoiling for the fight

Jul 10th 2008 | PEASEMORE
From The Economist print edition

LFI

How David Cameron brought the Tories within sight of power—and what they might do with it

JUST after noon, on every Wednesday that Parliament is sitting, David Cameron, the leader of the Conservative Party, rises to his feet in the House of Commons and savages Gordon Brown. Labour MPs, packed into the government benches for the weekly ritual of prime minister's questions (PMQs), look on with grim, set faces as Mr Cameron mocks and denounces his antagonist. Sometimes, like an enraged tethered bear, Mr Brown fights back, howling that Mr Cameron is merely a "shallow salesman", an insubstantial con man.

It has become a platitude of political commentary in Britain to envy the drama that Barack Obama and Hillary Clinton brought to American politics. But neither America nor most other democracies offers a spectacle to match the gladiatorial rawness of PMQs, which has itself rarely been so compelling as it is now. An irascible workaholic Scot, one of the architects of New Labour, faces a patrician Tory with unmistakably pukka vowels—a suave upstart who seems set to wrench away the premiership that Mr Brown waited ten covetous years to inherit from Tony Blair.

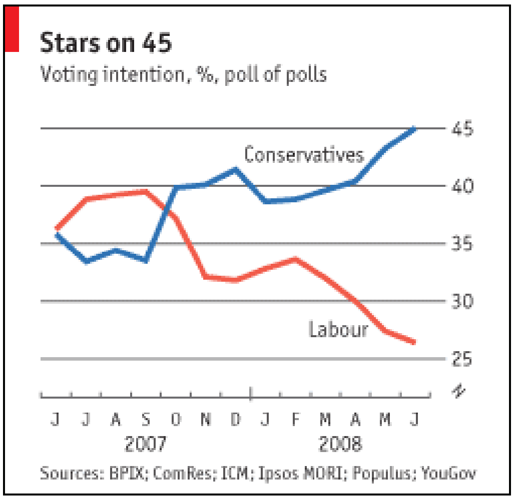
For some, however, there is something wrong with this picture of political combat. Because to some, especially in Britain's right-wing commentariat, Mr Cameron scarcely seems a Tory at all.

To understand that view, and to appreciate the scale of Mr Cameron's achievement so far, it is necessary to revisit the landscape he faced when he became Tory leader in December 2005. Seven months earlier the Tories had lost a third successive general election, on a solidly right-wing manifesto. Before 1997, anyone who won the Conservative leadership could expect, sooner or later, to move into Downing Street; since then, three Tory leaders had been seen off by Mr Blair. The introverted party looked unable to pick a front-man who could also impress the wider electorate. Some argued that Conservatism as a whole was moribund—ill-equipped to cope with globalisation, the diminished status of the nation state and the complex, evolving shape of British society.

Then, last summer, it got worse. Mr Brown finally succeeded Mr Blair, and clever tactics and conducive circumstances gave him a giddy bounce in the opinion polls. The Tories haplessly failed to win two parliamentary by-elections; some of their donors and a few backbench MPs began to mutiny, and Mr Brown readied his party for another, early, election. "Bring it on!" cried the Tories; but the bravado was insincere and unconvincing.

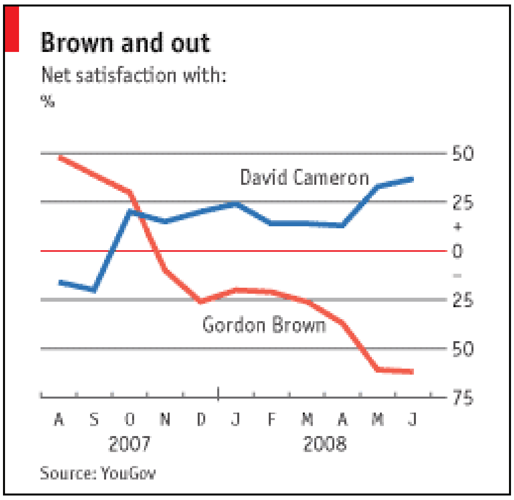
Had the prime minister gone to the country and won a fourth term for Labour, Mr Cameron might have joined his three predecessors in obscurity. Some Labour people hoped that, after another defeat, the Tory party—once the Western world's greatest election-winning machine—would quarrel itself into oblivion.

That was less than a year ago. Yet now his party is, according to most polls, around 20 points ahead of Labour (see charts). Mr Cameron and George Osborne, his shadow chancellor, lead Mr Brown and Alistair Darling, the underwhelming actual chancellor, on the key question of economic management. In May the Tories stunningly won a parliamentary by-election in the once-safe Labour seat of Crewe; on June 26th they scored another fine result in Henley, the southern seat vacated by Boris Johnson, who had earlier captured the mayoralty of London for them. Translated into seats at a general election—now unlikely to be called until 2010—these numbers would give Prime Minister Cameron a hefty Conservative majority in the Commons.



Partly, of course, he has benefited from the shambles that Mr Brown's first year as prime minister became, as well as disillusionment with Labour's economic management and the disenchantment that such a long incumbency inevitably gestates. But Mr Cameron is justified in claiming that the Conservatives "have made some of their own luck".

He understood that the Tories were still hobbled by a reputation, acquired (fairly or otherwise) in office, as callous, bigoted and sleazy. This was so poisonous and persistent that, in "blind tastings", voters who liked Conservative policies withdrew their approval when they learnt the ideas were Tory ones. Mr Cameron embarked on a strategic campaign to detoxify the party brand; thus his much-ridiculed but calculated stunts, such as a husky-powered visit to a melting glacier to advertise his environmentalism, his call (though he never put it quite like this) for people to "hug a hoodie", or a trip to Rwanda that unfortunately coincided with flooding in his Oxfordshire constituency. He ditched his party's hostile views on gay rights and promoted ethnic-minority activists.



The Tories, in their mantra, were "earning the right to be listened to". What they now have to say is—though Mr Cameron resists the analogy—an eerie reflection of the message that brought Mr Blair his 1997 landslide. Mr Blair had also taken charge of a demoralised party, much of it determined not to compromise with the voters. His imperative was to prove Labour's economic prudence. To that end, he pledged to stick temporarily to the last Tory government's spending plans—just as Mr Cameron and Mr Osborne have tried to dispel the Tories' image as slash-and-burn tax-cutters by signing up to Labour's overall spending proposals for the next three years.

To build the coalition he needed for victory, Mr Blair, in political parlance, ran against his base, boldly making the issue of crime his own. Likewise, Mr Cameron has tried to colonise poverty—hitherto Labour's intellectual fief—for the Tories. (In a way, his was the tougher task. His party did not have to renounce any convictions as central and atavistic as Labour's commitment to nationalised industry; but where Mr Blair followed proto-reformist leaders in the shape of Neil Kinnock and John Smith, Mr Cameron started from scratch.)

He prefers to talk about broadening his base rather than upsetting it, and describes his approach as the politics of "and"—promising social activism *and* robust economic management. But the basic strategy of political cross-dressing has been the same as Mr Blair's. It is this that has led some to see Mr Cameron as merely an opportunist, travelling under a convenient Tory banner.

Conversely, another set of observers—some with enthusiasm, others with apprehension—regard him as a crypto-right-winger, poised to shed his cloak of moderation when he crosses the threshold of Number 10. This camp points to the service he rendered to Norman Lamont, a former Tory chancellor: Mr Cameron was Mr Lamont's adviser in 1992, when Britain humiliatingly withdrew from the European exchange-rate mechanism, as Mr Brown often reminds him. And Mr Cameron co-authored the 2005 general-election manifesto. He accepts that others grasped the need to overhaul his party before he did.

The clever stupid party

These contradictory critiques—that Mr Cameron stands for nothing at all, and that he is a closet extremist—are probably both mistaken. He is at bottom a deeply old-fashioned Conservative; so old-fashioned, in fact, as to confound the expectations shaped by recent Tory history.

In a sense, that history has consisted of a long argument about Margaret Thatcher. Her transformation of Britain's economy is interpreted by some Tories as proof that the proper way to win power is to promise upheaval, especially in taxation, and the proper way to wield it is via radical reform and confrontation. Another view is that Mrs Thatcher was, as Mr Cameron now puts it, a "revolutionary but also a gradualist", who achieved her aims cautiously, often without advertising them in advance. For most of the time since 1997, the first interpretation has appeared to predominate.

The strain of Conservatism that Mr Cameron embodies has thus become unfamiliar. It is pragmatic, incremental, willing to adapt to win and keep office. This is the flexible Conservatism of Benjamin Disraeli, a 19th-century prime minister, combining his awareness of the needs and votes of the lower classes with the gradualism of Edmund Burke, who articulated Tory alarm at the French Revolution. It is a Conservatism that is sceptical of state power and favours market solutions, sound money and patriotism—but all in moderation. This is perhaps the real contrast between Mr Cameron and David Davis, who left the shadow cabinet last month to dramatise his disgust with Labour's erosion of civil liberties. Both believe in the principle he wants to defend, but Mr Davis *really* believes in it.

That is not to say, as some lazy pundits do, that Mr Cameron's Tories have few or no policies. A popular refrain among his senior lieutenants is that they will not repeat what they see as Mr Blair's big mistake: a failure to plan adequately for government. They propose, for example, to scrap Labour's identity-card scheme, introduce the election of local police chiefs and repeal the 42-day maximum for detaining terrorists before they are charged (if there is no new evidence that the 42-day limit is needed, Mr Cameron says circumspectly). They would place a limit on immigration from outside the European Union, a misguided idea that Mr Cameron has at least taken care to justify in terms of demographic change rather than race.

There are still gaps, such as his failure to say definitively whether he opposes the expansion of Heathrow airport—part of a general tension between his claim to champion both environmentalism and business. But the demand, in some quarters, for a more radical prospectus rests on a misunderstanding of his Conservatism. He is not offering a Tory Utopia, but better management and greater efficiency: a different emphasis rather than a revolution.

In the key area of public-sector reform, some senior Tories privately describe their approach as "Blair without Brown": that is, furthering the agenda of choice for consumers and competition among providers that Mr Blair eventually fixed on, without the brake on reform applied by Mr Brown during his time as chancellor.

Probably their most interesting ideas have been advanced by Michael Gove, their ferociously charming education spokesman. (Tory plans for the National Health Service are more modest, not least because of the perceived need to neutralise old claims that they secretly intend to destroy it.) The headline proposal, modelled on the example of education reform in Sweden, is to break the post-war monopoly on state secondary education by giving groups of dissatisfied parents and others the right to set up their own schools with government funds. It builds on the programme of academies—state-funded but relatively independent schools with outside sponsors—begun by Mr Blair. Not everyone is convinced that the spirit of civic activism is sufficiently vibrant in England for the scheme to take off.

Mr Cameron also invokes that spirit in his prescriptions for what, with some hyperbole, he describes as Britain's "broken society". To cure the ills of single-parenthood, benefit-dependency and the like, he proposes a tougher welfare regime (though not all that different from the government's), tangible if unspecified support for marriage through the tax system and more job flexibility for parents. But the Tories' main tools will allegedly be voluntary and religious organisations—Burke's "little platoons"—who, they argue, know more about, say, helping drug addicts than the government does. Mr Cameron also talks about establishing new "social norms"—using signals from government to establish healthy models of behaviour. He cites the success of previous campaigns against drunk driving as a precedent. In Glasgow on July 7th, Mr Cameron talked with new stridency about personal responsibility and "moral choice".

Whether intractable social problems can be solved quite so magically is open to doubt. But a future Tory government would probably lack the cash for costlier solutions. The economic and fiscal squeeze has

narrowed their scope for tax reform too. Mr Osborne has made populist pledges to cut stamp duty for first-time home-buyers and to exempt more people from inheritance tax. But his overall goal is merely to "share the proceeds of growth" between tax cuts and public spending: if there is no growth, there may be no cuts. For now, the Tories' foreign policy is more distinctive than their economic ideas.

A few months ago, Tory spin-doctors floated a comparison between Mr Cameron and Mr Obama ("far-fetched", Mr Cameron now concedes). There is one genuine likeness. Mr Cameron, too, is vulnerable to the "3am question": whether, at 42 and with no executive experience, he could handle crises. He says that judgment, character and so on matter more than whether "you have every single piece of knowledge about every country in the world."

Mr Cameron caused a rumpus by using the fifth anniversary of the terrorist attacks of September 11th 2001 to call for a "solid but not slavish" relationship with America, and to say that liberty "cannot be dropped from the air by an unmanned drone". He now insists that he is a "natural Atlanticist". He has been supportive but critical of Britain's role in Afghanistan, arguing, for example, that the civilian effort should have been better co-ordinated and the military command simplified (by 2010, he says, any British troops still in Iraq will be on their way out, whoever is prime minister). He describes his foreign-policy approach as "liberal conservatism", which supposedly combines idealistic goals with a realistic approach to achieving them.

Perhaps—though theories of diplomacy do not always survive their first contact with real-world decisions. Mr Cameron is, however, ineluctably wedded to one foreign-policy tenet: Euroscepticism.

Senior members of his team merrily aver that theirs will be the most Eurosceptic administration since that term had any currency. Mr Cameron himself casts his views on Europe as a function of his liberalism, rather than as a symptom of little-Englander parochialism. Tory scepticism "about big European bureaucracies", he says, "is exactly the same as our scepticism about big national bureaucracies". Whatever the rationale, the long internecine Tory struggle between Eurosceptics and Euro-enthusiasts is over: the sceptics won.

Unity, however, also has its risks. The party line is that the institutional changes in the Lisbon treaty ought to be put to a referendum. The risky part concerns what the Tories might do if the treaty comes into effect before they assume power.

Mr Cameron and William Hague—once an indifferent party leader but now a forceful shadow foreign secretary—say that in those circumstances the matter "will not rest". But they have yet to specify what that means, which powers they propose to repatriate from Brussels and how they would go about it. The "no" vote in the Irish referendum in June has helpfully eased the pressure for them to elaborate, since the future of the treaty itself is now uncertain. But there is a danger that, as well as diminishing Britain's influence in the European Union, Mr Cameron's plans (whatever they are) would sap a new Tory government's energy and attention.

That is a worry for the future. Before an election, who Mr Cameron is may yet be as awkward for him as anything he has to say.

The playing fields of Eton

Peasemore is the sort of fairy-tale village that, judging by Tory rhetoric about the "broken society", ought no longer to exist. There is a nice old pub, with the heads of foxes caught by the local hunt mounted on the wall and tankards dangling above the fireplace. There are thatched roofs, wildflowers in the hedgerows and a lovely country church. A plaque commemorates Peasemore's selection as Berkshire's best kept village of 1978—when a young Mr Cameron was living there, in a grand house with a big walled garden, just visible at the end of a long drive.

Mr Cameron would be Britain's poshest prime minister since Alec Douglas-Home in the early 1960s. Money and Tory politics cascade through his family: perhaps the idyllic setting of his childhood helps to explain his avowed environmentalism. His wife is a descendant of Charles II and his mistress Nell Gwynn. Several of his top men are equally privileged: he, Mr Osborne and Mayor Johnson, the three most prominent Tories in the land, were all members of the Bullingdon Club, an infamously elitist and rowdy Oxford dining club. (A photo of Mr Cameron and his clubmates in waistcoat and tails has mysteriously dropped out of circulation.)

In picking him, the Tories shed their long anxiety about choosing upper-crust leaders, betting on both his charisma and the decline of old class resentments. The by-election win in Crewe, where Labour tried and failed to use class as a weapon, seemed to vindicate their hunch. But class consciousness persists, and if Labour is desperate it may again try to exploit it.

And whenever the election comes, Labour is likely to be desperate. Its poll numbers are catastrophic. Although the Tories need a huge psephological swing to win, they are making gains in the parts of the country and bits of the population (such as the lower-middle and skilled working classes) that they need to conquer.

In a way, Mr Cameron's background has helped. Though some Labour MPs quickly saw in him the most talented Tory leader since Mrs Thatcher, others underestimated him, partly because of reverse prejudices about his class. His upbringing doubtless also contributed to the extraordinary self-confidence with which, at his first PMQs as the Tory challenger, he pointed at Mr Blair, then still prime minister, and declared, “He was the future, once!”

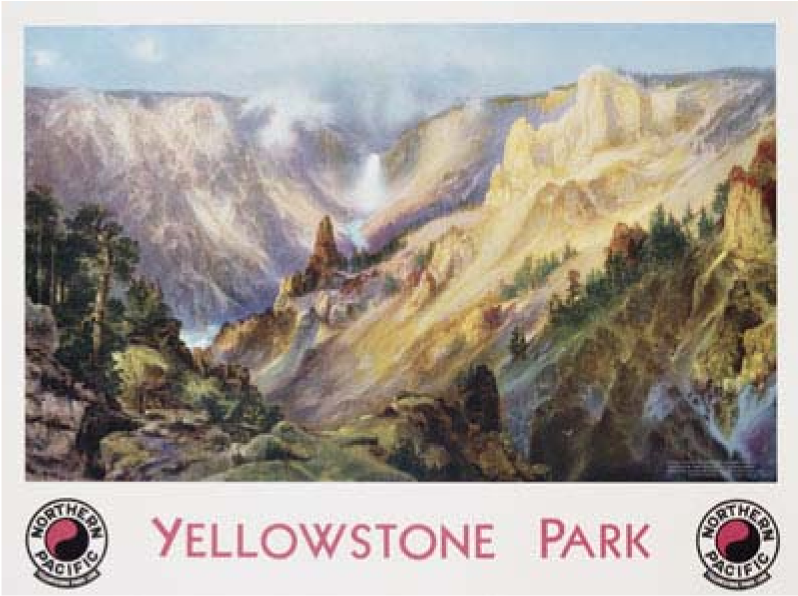
Recreation

Out of the wilderness

Jul 10th 2008 | YOSEMITE VILLAGE
From The Economist print edition

People are shunning the great outdoors. Blame conservationists, not video games

Corbis



ON JULY 4th, normally the busiest public holiday of the year, tourists were put off by high petrol prices and more than 300 wildfires raging across California. On Memorial Day, traditionally the beginning of the summer season, it was cold. In 1999 there was a grisly murder. In 1997 the Merced river flooded, inundating a hotel and wiping out hundreds of campsites. There are always excuses for the absence of people in Yosemite National Park.

The number of visitors to California's most spectacular valley has dropped for nine out of the past 13 years, and seems to be heading down again this year. Even in 2007—a relatively busy year—attendance was 11% below the mid-1990s peak. In America as a whole the number of visitors to national parks and historic sites peaked in 1987. Visitors are staying for less time and camping less often, especially in the wilderness. And rangers are hearing less American-accented English. Were it not for British and German tourists enjoying the weak dollar, the parks would be desolate.

Falling enthusiasm for what the writer Wallace Stegner called America's "best idea" is especially striking in such a fast-growing part of the country. Since 1994 California has swollen from 31.5m to over 38m people. The speediest growth is inland, close to parks like Joshua Tree, Sequoia and Yosemite. The same pattern holds further east. Larry Swanson of the Centre for the Rocky Mountain West notes a strong correlation between population increase and proximity to national parks and forests. Americans plainly think it is a good idea to live near national parks, but they are not so keen on visiting them.

Americans are retreating from other outdoor activities too. Despite an explosion in the deer population, the number of hunters fell from 19.1m to 12.5m between 1975 and 2006. Fishing has declined more steeply, particularly among the young. This worries everybody from urban liberals (who fret about the health of a generation growing up indoors) to rural conservatives (who fear that public lands will be closed to hunters if not enough turn up). The "No Child Left Inside" act, which would pay for children to be taught about the delights of the countryside, is trundling through Congress. Nebraska now provides turkey-hunting lessons for women.

By contrast, it is not clear to everyone in the National Park Service that the lack of visitors is a problem, admits Dean Reeder, its tourism director. Some rangers, indeed, seem to view visitors as an impediment

to the smooth running of the parks. Wiser heads know this is folly. As Americans lose interest in the national parks, they will become less willing to pay for them through taxes. Some worry about Hispanics, a fast-growing group that seems resistant to the call of the wild.

Like many things that go wrong in America, the drift away from nature is commonly blamed on television, video games and the internet. This is implausible. The number of park visitors rose steeply between the 1950s and the mid-1980s, even as the first two electronic lures spread. Rather more credible is the explanation that Americans are more fearful for their children and have become unwilling to leave them in the company of strange men, green-hatted or otherwise. But the biggest reason of all is competition.

Attendance at national parks was not the only thing that peaked between the late 1980s and the early 1990s. In 1991 America's homicide rate reached 9.8 per 100,000 people. Many cities were known for lawlessness and grot; not surprisingly, holiday-makers were passing them up for greener spots. Then, miraculously, the murder rate began to slide, falling to just 5.5 per 100,000 in 2000. Led by New York, cities spruced themselves up and began to attract more tourists.

Fred Kent of the Project for Public Spaces, a consultancy, reckons Americans have rediscovered the pleasures of densely-populated, exciting places. Not all of these are cities, although they tend to look like them. In 1994, the year Yosemite's crowds were at their thickest, MGM announced plans to build a casino on the Las Vegas strip that resembled New York. By the time it was finished, three years later, work had begun on Paris and Venice. Shopping malls began to transform themselves from covered boxes into ersatz downtowns open to the elements.

Yosemite is long on staggering views but short on what most people would today regard as entertainment. It contains fewer diversions than it once did. Scott Gediman, the park's spokesman, points out that it used to have a Cadillac dealership and a zoo. Although pretty, Yosemite's hotels are basic compared to most cities (if they were in Las Vegas they would have been dynamited long ago). Camp Curry, a vaguely military cluster of fixed tents and cabins, has hardly changed in a century.

As in other national parks, Yosemite's rooms tend to sell out in descending price order. Expensive hotels go before cheaper ones—indeed, they routinely book up as soon as reservations can be made, 366 days in advance. Cabins with bathrooms go before cabins without. This suggests there is pent-up demand for luxury hotel rooms. Not only is there little chance more will be built; it is proving almost impossible to put up a handful of campsites.

The Merced river flood of 1997 almost halved the number of campsites in Yosemite Valley. Today there are just 464, accommodating 2,700 people at most. The park wants to build more, although not nearly as many as there were before the flood. This plan, which is part of a modest package of improvements to the park's infrastructure and one of its hotels, has been opposed by local conservation groups on the ground that it fails to address threats to the valley's ecology.

So far conservationists have managed to block the renovations. And they have opened a broader front in the battle against development. Earlier this year a federal court ruled that the National Park Service must limit human use of Yosemite Valley. That may mean a daily cap on visitor numbers. If the park imposes one, the example is likely to spread across America. This will create pressure to solve environmental problems by turning more people away.

This is a shame, and a self-defeating exercise. America's environmental movement emerged in the 19th century to push for national parks. In the 20th century it sold them to the public through photographs and writing. It now seems bent on driving people away from them.

Foreign investment

Love me, love me not

Jul 10th 2008 | MOBILE AND NEW YORK
From The Economist print edition

America's confused, and sometimes scared, relationship with foreign investors

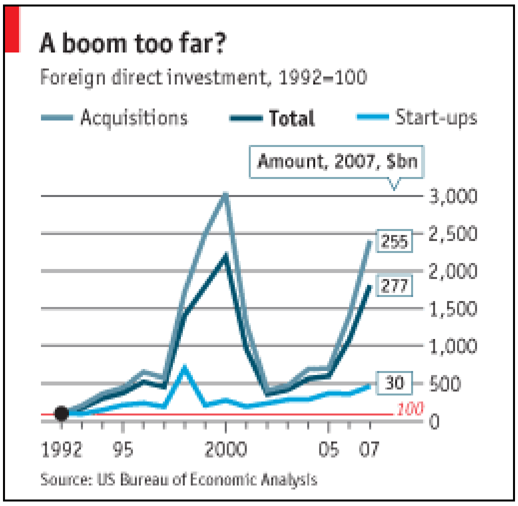
Illustration by Claudio Munoz

EIGHTY-FIVE Alabamians will descend on Britain on July 13th. Despite the timing, they will not be tourists in garish shorts. This group wears pinstriped suits and includes Alabama's governor. Their destination is the Farnborough Air Show. Their goal, in flying overseas, is to convince foreign investors to return the favour.

In America's political lexicon, few words are more poisonous than "outsourcing". Foreign direct investment in America, meanwhile, is politically fraught, as witness the uproar in St Louis, Missouri, over a Belgian brewer's bid for Anheuser-Busch. But behind this debate, foreign investors are being wooed by a growing number of politicians, from Manhattan to Mobile, Alabama. "Globalisation is a reality," explains Sam Jones, Mobile's mayor. "You can sit around and wish that something else was taking place or you can take advantage of globalisation, what we call 'insourcing'."

Foreigner investors went shopping in the United States last year, lured in part by the cheap dollar. Spending to acquire or establish American businesses grew to $276.8 billion in 2007, 67% more than in 2006 and the highest level since the peak in 2000, according to the Bureau of Economic Analysis (BEA). The vast share of this was acquisitions, but spending on existing businesses grew too, up by 29% over 2006. Net FDI, which also includes funding for existing operations, was $204.4 billion, up by 13%. More Americans are getting their pay-cheques from foreign firms: 5.3m in 2006, or 4.5% of the private workforce.

This growth comes despite a host of obstacles. Visa rules remain a deterrent. China's attempt to acquire an American oil company in 2005 and Dubai Ports' bid to operate six big harbours in 2006 were met with panic. Congressmen agonised over security in both cases. But protectionism extends beyond strategic assets—unless you count beer as a national resource.



The Commerce Department insists that America is open for business. In 2007 it launched "Invest in America" to help attract foreign companies and calm those afraid of them. The 33-year-old committee on foreign investment, CFIUS, is also refining its process for examining deals that might threaten security. But Mark O'Connell of OCO Global, a consulting firm, describes the national strategy for FDI as "embryonic".

States are far more aggressive, courting foreign investors through trips abroad and incentives. California, New York and Texas have proved the biggest magnets, topping OCO Global's list of foreign investment in new facilities or expansions from 2003-07. But even Michigan, one of the rustier states, has seen a boost from foreign investors, ranking fourth.

FDI varies wildly from one state to another. In New York foreign investors mainly help to fuel the finance, insurance and information sectors, according to a new report by the Partnership for New York City, a business group. FDI is especially vital in the city itself—foreign majority-owned firms accounted for one in 20 jobs in 2004 and for one-tenth of the city's economy. Though developed countries remain the biggest spenders, recent attention has centred on less traditional sources of capital. Sovereign-wealth funds' recent investment in giants such as Citigroup and Merrill Lynch comprised too small a percentage of ownership

to count as FDI by the BEA's definition, but set the city abuzz nonetheless. Middle Eastern investment in property also raised eyebrows. Perhaps most telling, Ground Zero's Freedom Tower, which is meant to embody American patriotism, will house a centre for Chinese firms expanding in America.

At the opposite end of the spectrum, Alabama is luring global firms to feed its manufacturing base. In 1993 Mercedes chose Alabama as the site of an assembly plant. Honda, Toyota and Hyundai followed, and Volkswagen may soon as well—Alabama is one of three finalists for a new project. Mobile had planned to celebrate the coming of a new Airbus factory to assemble air-force tankers on June 20th (though, elsewhere, politicians lamented the choice of a European company over Boeing). When news came that the contract would probably be scrapped because the bidding process was flawed, Mobile had a parade anyway to cheer an Australian shipbuilder, a Singaporean aerospace company and a giant new ThyssenKrupp steel plant, among others.

The danger, of course, is that such projects bring rustbelt problems in future. Neal Wade, Alabama's development chief, is working to diversify and encourage growth in the life sciences. But foreign investment remains at the core of his plans.

Despite states' efforts to lure foreigners, Matt Slaughter, an economist at the Tuck School at Dartmouth who served on George Bush's Council of Economic Advisers, is concerned by "a protectionist drift". He argues that even foreign acquisitions, which politicians hardly court but which account for the bulk of FDI, play a vital role. Some acquisitions may lead to a loss of jobs, but on the whole they make companies more productive, create higher-wage jobs and help pay for the current-account deficit. Ron Blackwell, chief economist for the AFL-CIO, the labour union federation, says his organisation is "less concerned with the source than the nature of investment", and argues that greenfield projects and expansions will do most to buoy the economy in the long term.

In this debate politicians remain muddled. On July 7th Barack Obama said no law barred shareholders from selling Anheuser-Busch to a foreign firm, but that such a deal would be "a shame". Todd Malan, head of the Organisation for International Investment, which represents American subsidiaries, merely sighs. "The current environment", he says, "is characterised by schizophrenia."

Community service

My country, 'tis of thee

Jul 10th 2008 | WASHINGTON, DC
From The Economist print edition

The candidates pitch their appeals to Americans' most selfless instincts

BILL CLINTON'S campaign tune was "Don't stop thinking about tomorrow". George Bush claimed to be a compassionate conservative. John McCain's oft-repeated catch-phrase is "a cause greater than self". Instead of encouraging Americans to spend money after the terrorist attacks of September 11th 2001, he says, leaders should have exhorted Americans to serve their country. That, he told an audience of independent voters in St Paul, Minnesota last month, "is what I believe I can inspire a generation of Americans to do."

Barack Obama is sounding the same theme. Last week in Colorado he lectured Americans about their responsibility to change their country, a topic he expounded at greater length in May, when he told a group of graduating university students that "individual salvation depends on collective salvation", not a surrender to America's "money culture". Getting them to serve "a greater good", he said, would be a major goal of his presidency.

The candidates' personal stories lend sincerity to their words. Mr McCain comes from a long line of naval officers, and his years of torture as a prisoner-of-war in Vietnam make even the most enthusiastic Americans feel inadequate in their commitment. Mr Obama's first television advertisement after he secured the Democratic presidential nomination stressed his decision to forgo a lucrative career in order to work in poor communities on Chicago's South Side.

Hard models to emulate. But judging by the candidates' speeches, their worry is not just that Americans aren't turning down Wall Street in large enough numbers. It is that they have disengaged from public life. This seems an odd concern in a country more patriotic and more civic-minded than most. But the candidates are not the only ones who are worried.

Researchers have found that, by nearly every indicator, Americans' "civic engagement" declined dramatically in the last three decades of the 20th century. A smaller share of Americans voted, joined civic-minded clubs, attended public meetings or volunteered on a campaign. After September 11th volunteering and some other measures of civic engagement shot up, but that now seems to be reversing. And military recruiters are struggling to meet their goals.

Still, Robert Putnam, a Harvard professor whose article "Bowling Alone" first raised the alarm back in 1995, argues that the generation of Americans currently in their teens and 20s—more deeply affected than their elders by the terrorist attacks—will be the most engaged in their communities since the famous "greatest generation" of Americans who fought in Europe and then oversaw the prosperity that followed the second world war. Decades-long trends are shifting: youth voter turnout has increased in the last three election cycles, the first time that has happened since 18-year-olds were admitted to the franchise. Studies have shown that college students are more interested in talking about and taking part in politics than their counterparts in the 1990s. If the primary campaign was any indication, in the autumn young foot-soldiers will not only turn out to vote in large numbers but will also volunteer in droves.

Even as these so-called "Millennials" are showing greater interest in public life, the internet is making it easier to network. It is child's play now to organise adult kickball games on league websites or to distribute electronic call-lists to campaign volunteers—though sitting for too long behind a computer screen, of course, can also blight social interaction.

Crisis or not, the candidates feel they must do something. Mr McCain says that simply asking Americans to do more for their communities may be enough, and a section of his website lists charities Americans might volunteer for. Nevertheless he has pushed to expand AmeriCorps, a voluntary national-service organisation. He also praises military service on the hustings, and in the past he has written about the

importance of reviving the “citizen-soldier”, if not with a draft then with more incentives to enlist.

Mr Obama, too, wants to pump up the armed forces and vastly expand AmeriCorps—from 75,000 to 250,000 places. But he envisions a deeper role for the federal government in persuading Americans to serve near home. Indeed, his wife Michelle said that he would “never allow” Americans to live as they had before his candidacy. One initiative would provide a $4,000 tax credit to pay the university fees of any student who promises to perform 100 hours of community service, a programme Mr Obama’s campaign says would cost $10 billion a year. He also talks of making political involvement “cool again”. On that last score, he already seems to be succeeding.

Louisiana politics

A rise and a fall

Jul 10th 2008 | NEW ORLEANS
From The Economist print edition

Bobby Jindal's broken promises may cost him dear

AFP

NOT so long ago, Bobby Jindal was riding high. After sweeping into office in January, Louisiana's 37-year-old governor—America's first of Indian-American descent—had notched up his first big win, pushing an ambitious ethics package through the state legislature. He showed political acumen in the next session, too, managing to take credit for a tax cut passed by the legislature that his administration hadn't sought or even wanted.

Mr Jindal's youth, colour, brains and conservative bona fides stood out in a Republican Party that is increasingly seen as a bastion of old white people. So when John McCain, the Republican nominee for president, received the young governor in May at his Arizona ranch, people began to murmur that Mr Jindal might become his running-mate.

That may still be a possibility; but Mr Jindal's star has dimmed of late. An article in the *New York Times* portrayed him as weak and noted that his "reformist image...has taken a beating", and the local press agrees.

The criticism arose when lawmakers voted themselves a 123% pay rise. In fairness, their pay had not risen since 1980; but Louisianans were outraged. Mr Jindal tried to stay out of the fray, admitting that the rise was out of line but saying he wouldn't veto it because he had promised to let lawmakers "handle their own affairs". That cut no ice with voters, who reminded the governor that in one of his campaign mail-outs he had promised to veto legislative pay rises.

Talk-radio hosts and newspaper editorialists, many of who had been big Jindal boosters, fanned the flames. The governor's ratings plunged. And though its chances of success were nil, a recall movement was launched. At the last moment Mr Jindal realised his straddle was not working, struck down the measure, and apologised.

He has now regained his footing, but he is damaged. Bernie Pinsonat, a pollster, noted that even if Mr Jindal came around in the end, the episode caused many voters to use "some very unkind words related to his spine". And now the legislature is angry with him, too.

Louisianans have not forgotten the case of Buddy Roemer, the state's last strongly reform-minded governor. Mr Roemer could not get along with the legislature, which ran circles around him, and he finished third in his 1991 re-election bid. Something similar may happen this time. Mr Jindal apparently promised not to touch the pay rise if lawmakers supported a bill, dear to his heart, that created a school-voucher programme for impoverished New Orleanians. The legislature upheld its end of the bargain. Next time, it might not.

Commemorative days

The Paine dilemma

Jul 10th 2008 | LITTLE ROCK
From The Economist print edition

A worthy, but tricky, candidate

LUMINARIES of the American Revolution are much revered and endlessly biographied. But in the South reverence only goes so far when it comes to Thomas Paine. Paine, an Englishman who helped design the American revolution and wrote, in “The Rights of Man”, the best defence of the revolution in France, was a freethinker who scorned organised religion as well as kings: not a recipe for popularity in the Bible Belt.

Last year Lindsley Smith, an Arkansas legislator, tried to establish a Thomas Paine Day in her state. Forty-six lawmakers supported her (20 said no), but she needed 51 votes for her bill to pass, and 34 legislators did not vote at all—probably because they had no idea who Paine was. She will try again in January and, in the meantime, plans to educate Arkansans in general, and the state’s politicians in particular, about what Paine did and why he should be honoured.

The push in Arkansas coincides with an effort to institute a Paine day in all 50 states before the 200th anniversary of his death next year. So far nine states have passed such resolutions, including Nebraska and Missouri. Virginia, the first, introduced its Paine day in 1998.

Paine proponents quote John Adams: “Without the pen of Paine, the sword of Washington would have been wielded in vain.” Paine did not argue merely for the ending of slavery and monarchy but for public education, animal rights, women’s rights, a guaranteed minimum income and a pension for the elderly.

Unfortunately for his cause, he also held strongly anti-Christian opinions. Mark Wilensky, a Paine scholar, recommends that his present-day promoters should concentrate less on his later writings, which raise hackles, and more on his contribution to the struggle for independence. But Arkansas already honours a clutch of people with eyebrow-raising beliefs: Robert E. Lee, the commander of the Confederate army, Jefferson Davis, president of the Confederacy, Thomas Jefferson, who slept with his slaves—and Abraham Lincoln who, in his day, held opinions much less congenial to the South than Paine’s ever were.

Teachers' pay

Better marks, more money

Jul 10th 2008 | WASHINGTON, DC
From The Economist print edition

An idea to improve and revive the capital's woeful schools

BAD schools, the left insists, are bad because they do not have enough money. The nation's capital somewhat undermines this theory. Spending per pupil in Washington, DC, is a whopping 50% higher than the national average, yet the city's public schools are atrocious. If it were a state, its pupils' test scores would rank dead last.

Some schools struggle with the basics, such as discipline. Until last year, for example, the Johnson Middle School "had a nightclub on every floor", says Clarence Burrell, a youth adviser at the school. There would be dozens of kids hanging out on each corridor during classes, schoolboys "with their shirts off getting massages" from female classmates and fights "all the time", he says.

Mr Burrell, a tough-looking reformed convict, was hired by LifeSTARTS, a local charity, to help restore order. With his four colleagues, he pays attention to the most disruptive kids. He listens to them. He nudges them to pipe down and study. He offers his own "hectic" life as a cautionary tale. "Jail is ten times worse than school," he warns young troublemakers. "It's a long time, just you in that cell with a bunch of dudes."

Programmes such as LifeSTARTS are a first step. But what the system needs is fundamental reform. Teachers are virtually unsackable and paid by seniority. Such incentives attract the lazy and mediocre and repel the talented or diligent. Michelle Rhee, the city's dynamic new schools chancellor, is trying to change them.

Ms Rhee is thrashing out a deal with union leaders that would raise teachers' wages dramatically. Starting salaries would leap from about $40,000 to $78,000, and wages for the best performers would double to about $130,000 a year. In return, teachers would lose tenure and be paid according to merit, measured in part by their students' results. Current teachers would have a choice: they could join the new system or stay in the old one. New hires would have to join the new system. Over time, the quality and morale of teachers in Washington should soar. "Imagine the kind of talent the hard-pressed system could attract," drools the *Washington Post*.

But wouldn't all this require a huge expansion of the school budget? Perhaps not. The current system is staggeringly inefficient. The city employs an army of educational bureaucrats and has twice as many schools as it needs. It pays to heat and air-condition some schools that are only a quarter full. Insiders reckon that, within a few years, the new pay deal could be wholly financed by cutting waste. And in the short term private donors are willing to shoulder much of the cost.

The plan's boosters call it revolutionary, in that it applies to public schools a principle—reward good work and you get more of it—that every other employer has known for centuries. But it will be still-born if the Washington teachers' union does not agree to it. Local union leaders rather like the idea of higher pay, but the big national unions are appalled at the notion that any teachers might give up tenure. Fearing an unwelcome precedent, they are leaning on the local union to kill the deal.

Washington may be extreme, but it is symptomatic of a wider malaise. America's best universities are still the world's best and many of its public schools are excellent, too. But far too many are awful. Overall, the high-school graduation rate is slipping. And the generation now entering the workforce is less well educated, on average, than the generation about to retire—a fact that bodes ill for the nation's prosperity. Any idea that might stop this slide is welcome.

Drug wars

The sheriff's stash

Jul 10th 2008 | AUSTIN
From The Economist print edition

What happens to all that seized money and stuff?

IN 2005 the Montgomery County district attorney's office held a party at the county fair in east Texas. They had beer, liquor and a margarita machine. The district attorney, Mike McDougal, at first denied that this had been paid for by drug money. He acknowledged that his office had a margarita machine at the fair. In fact, he said, they won first prize for best margarita. But he insisted they came by it fair and square. In any case, he pointed out, the county's drug fund was at his discretion. Under Texas forfeiture law, counties can keep most of the money and property they rustle up.

As the drug war continues, the practice of asset forfeiture has come under question. Last year, according to the Drug Enforcement Administration, $12 billion was smuggled from the United States to Mexico. Federal officials seized about $1.6 billion of that. State and local agencies got many millions more. The idea is to discourage drug smugglers by taking away their profits. At the federal level, forfeited assets go into a dedicated fund. But at state level, various rules apply. In Indiana, for example, extra money goes to a general school fund. In Texas, most of it stays with the sheriffs or district attorneys whose offices found it.

This was meant to help out and encourage local law enforcement by giving officers some discretionary income. In most cases it does. But Mr McDougal's margarita machine was not an isolated abuse. A district attorney in west Texas took his whole staff to Hawaii for a training seminar. Another spent thousands of dollars on commercials for his re-election campaign. John Whitmire, a Democratic state senator, wants to prosecute such abuses and held a hearing last month to examine the issue. He found an immediate obstacle to punishing the profligate district attorneys. "I ain't figured out what the hell law they violate," he said. Chapter 59 of the Texas criminal code, which covers forfeiture, is vague on the subject. It says only that assets must be used "for law-enforcement purposes".

Mr Whitmire is mostly concerned with the waste of public money. But the asset-forfeiture programme has various problems. Some poorer counties have come to rely on drug money to pay for their basic operations. Even in counties that are not strapped for cash, there is an extra incentive for sheriffs to go after money, so they may have more interest in the southbound traffic than in people heading north.

Another concern is that the government has broad powers to seize assets. In criminal cases, forfeiture follows a conviction and so it requires a guilty person. In civil cases, the property itself is considered guilty, and the government has only to show by "a preponderance of the evidence" that the money or gun or car was somehow shady. That is a lower standard than the "beyond a reasonable doubt" used in criminal cases.

Sometimes the patrolman gets things wrong. In 2005, for example, Javier Gonzalez was stopped in South Texas with about $10,000 in cash in a gym bag. He was going to visit a sick aunt and planned to use the money to make funeral arrangements. He was pulled over, and the cash was seized. The police report said that he seemed nervous. Earlier this year a court in Jim Wells County reimbursed Mr Gonzalez and awarded him damages. But many people in his situation could not have afforded to take their case to court. Lawyers are expensive, especially for a person who has just had thousands of dollars stolen.

Asset forfeiture is not simply a Texas issue. A sheriff in Georgia spent $90,000 on a sports car. It is used to advertise an anti-drug programme. A grand jury is trying to figure out whether that is "appropriate".

Because Texas has such a long border with Mexico, it is home to several smuggling corridors. Mr Whitmire maintains that it is a good idea to keep the asset-forfeiture programme, as long as the state can figure out a way to clear up the abuses that threaten to ruin everything. During last year's legislative session he had a plan to devote 10% of seized funds to drug courts and rehab programmes. District attorneys raised a fuss then, but this year they should be more receptive to suggestions. And Mr McDougal, by the way, fessed up in the end about the margarita machine.

Lexington

New and improved

Jul 10th 2008
From The Economist print edition

The only problem with Barack Obama's move to the centre is that he's not moving far enough

Illustration by Kevin Kallaugher

THE reaction to Jesse Helms's death on July 4th is a reminder of how bipolar American politics has become. The right praised him as a man of principle who also overflowed with the milk of human kindness. The left retorted—rightly, in our view—that he was also a bigot and a bully (see article). But at least conservatives and liberals have discovered one thing they can agree on: that Barack Obama is a cynical opportunist, a flip-flopper and a shape-changer, a man who brushes aside his principles with the same nonchalance that lesser mortals reserve for their dandruff.

Bob Herbert of the *New York Times* worries that Mr Obama is "not just tacking gently to the centre. He's lurching right when it suits him, and he's zigging with the kind of reckless abandon that's guaranteed to cause disillusion, if not whiplash." Some 22,000 people have protested on his website about his change of heart on wiretapping. A group called "Recreate68" promises to complain about his move to the centre at the Democratic convention in Denver in August.

For its part, the right has discovered that Mr Obama is not a "hard left" liberal, as it had previously thought, but a standard-issue politician who will "say and do anything to get elected". Charles Krauthammer calls him a "man of seasonal principles". Bo Snerdley, Rush Limbaugh's sidekick, describes him as "the first black Clinton". "Has there ever in recent political memory been so much calculation and bad faith by a politician who has made so much of eschewing both?", asks Rich Lowry, the editor of the *National Review*.

This is all overstated. Mr Obama was always clear that he was running for the presidency of the United States, not the chairmanship of MoveOn.org. He has repeatedly presented himself as a post-partisan problem-solver who wants to work with Republicans as well as Democrats. His enthusiasm for "faith-based" social services is long held. Even on the issue that first endeared him to the left—the Iraq war—he made it abundantly clear that he was opposed to that particular war, not to the exercise of American power. Still, there is no doubt that he has engaged in a bit of vigorous repositioning in the past few weeks.

The old Obama pledged to take public financing in the general election. The new one will spend what it takes. The old Obama pledged to filibuster a bill giving legal immunity to telecoms companies that co-operated with the government on terrorist surveillance. The new one supports the bill. The old Obama

failed to wear a flag pin. The new Obama talks about patriotism in a sea of American flags, praises General David Petraeus, the chief commander in Iraq, raises doubts about partial-birth abortion, agrees with the Supreme Court on gun rights, supports the death penalty for child-rapists and embraces faith-based social work.

But isn't moving to the centre just sensible politics as the primary turns into a general election? Ronald Reagan devoted a great deal of energy to persuading people that he was not a trigger-happy ideologue. Bill Clinton sold himself as a New Democrat who felt Middle America's pain. George Bush initially styled himself a "compassionate conservative". The likes of Walter Mondale and Michael Dukakis, on the left, and Barry Goldwater, on the right, may have won brownie points from their supporters for sticking to their principles. But they went down to calamitous defeats. The oddity of this election cycle is not that Mr Obama is moving to the centre but that John McCain is moving to the right.

Mr Obama's flip-flop on public finance is certainly cynical (and his willingness to justify it as an act of high principle even more so). But polls suggest that Americans are happy with a certain amount of flip-flopping: Mr Bush has all but destroyed the market in stubborn consistency. And Mr Obama's hard-edged cynicism also helps to quell one of the biggest doubts about his candidacy—that he is too naive and soft-minded to hold the most powerful job in the world.

Mr Obama is capitalising not only on his huge fund-raising advantage over Mr McCain but also on his rival's problems with his base. He is occupying the middle ground in order to reassure white voters that he shares their values. This is no airy-fairy liberal who is going to allow himself to be pushed around by Middle Eastern despots. This is a shrewd opportunist at work.

John Kerry's shadow

The vital question is not whether Mr Obama is changing his positions but whether he is changing them for better or worse. Here the picture is largely positive. His new-found enthusiasm for NAFTA and free trade could help to avert a prosperity-destroying drift to protectionism. Indeed, his chief economics adviser, Jason Furman, sounds like the very model of good sense. Mr Obama's willingness to support wiretapping in certain circumstances suggests that he is trying to strike a balance between security and privacy in what he calls a "dangerous world": the policy challenge is not to pursue vendettas against the Bush administration but to find a reasonable set of rules to govern surveillance. His repositioning on the Iraq war represents a recognition that the situation on the ground in Iraq has changed dramatically.

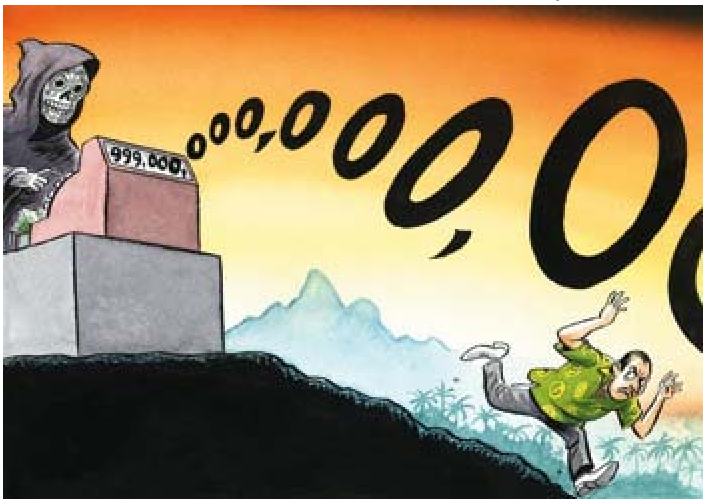
If there is a problem with all this repositioning, it is that it is not going far enough for most American moderates. Mr Obama has punted on partial-birth abortion rather than denouncing the whole gruesome procedure. He has insisted on putting restrictions on faith-based social services that most churches find unacceptable. On July 3rd he held not one but two press conferences on Iraq—one in which he seemed to suggest that he would adjust his policy in the light of new realities, another in which he insisted that his position "has not changed". Mr Obama needs to embrace centrism as a matter of conviction rather than flirting with it as an instrument of political expediency. Otherwise the accusations of flip-flopping that did John Kerry so much harm in 2004 will begin to bite.

Latin America's economies

The ghost at the till

Jul 10th 2008 | SANTIAGO AND SÃO PAULO
From The Economist print edition

Illustration by Peter Schrank



Bitter experience has made Latin Americans intolerant of inflation. But have their policymakers banished this spectre?

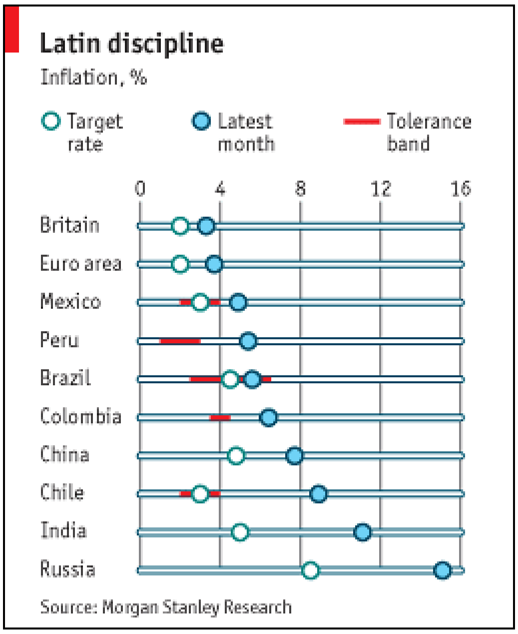
UNLIKE the developed world, Latin America has been barely touched so far by the credit crunch. Many of its economies are still growing fast, helped by demand for their commodity exports. But the commodity boom has started to have a less desirable effect: soaring food and fuel prices are pushing inflation up across the region. This has become a test of credibility for Latin America's new-found economic stability, and for its central banks. Some of the more important ones have responded more robustly than many of their Asian peers—even if claims that Brazil's hawkish Central Bank is "the new Bundesbank" require a pinch of salt.

The regional average inflation rate rose to 7.5% in April, from 5.2% a year before, according to the IMF. This is an underestimate, since Argentina's official inflation figure of 9.1% is probably less than half the true rate. It also conceals a divide. Around the turn of the decade, several of the larger countries adopted floating exchange rates, and inflation targets administered by more-or-less independent central banks. Another group of countries—including Argentina and Venezuela—have given greater priority to growth than to price stability. But even among the first group, inflation has been rising. In response, central banks in Chile, Colombia, Mexico and Peru began to raise interest rates last year. Even so, they have missed their inflation targets, in most cases for the first time (see chart).

To howls of protest, Brazil's Central Bank halted three years of monetary easing last October. Since then it has raised rates by a percentage point. Even so, inflation is nearing the upper limit of the target of 4.5% plus-or-minus two percentage points. Two things that have helped to contain price rises in Brazil for the past few years—cheap goods from the rest of the world and a strengthening currency to buy them with—have now run their course, notes Marcelo Carvalho of Morgan Stanley, an investment bank.

After initially grumbling that higher rates were making the real too strong for Brazilian industries to compete, the finance ministry is now supporting the bank's efforts. In June it tightened fiscal policy, raising its target for the primary surplus (ie, before debt payments) from 3.8% of GDP to 4.3%. The authorities are optimistic that inflation will be falling by the end of the year. But

ordinary Brazilians are alarmed by the rise in the cost of a staple basket of food—up by as much as 50% in some parts of the country, according to DIEESE, a union-linked research body.



Brazil's economy, along with those of Peru and Colombia, has been expanding at a faster rate than its underlying potential. But core inflation (stripping out food and fuel) has picked up in both Chile and Mexico despite sluggish growth, points out Alfredo Thorne, the chief Latin American economist at JPMorgan Chase, a bank. Mexico's central bank is trying to steer a delicate path: it has raised rates but says that its aim is to get inflation back on target by the end of next year. With an important congressional election due next year, the government has stepped in to impose a price freeze on some staples. However, this month it raised the price of petrol.

Chile was once considered to have the best-managed Latin American economy. Its reputation has taken the biggest knock. The inflation rate has been rising for more than a year, reaching 9.5% in June. But the economy expanded by only about 3% in the first half of this year—the lowest rate since 2002. The authorities have some excuses. Chile imports nearly all of its oil. It subsidises fuel products a bit less than some of its neighbours: the fuel subsidy (ie, the difference between domestic and world prices) is likely to amount to around $500m this year, says a Chilean official. That contrasts with $1.2 billion in Peru and $19 billion in Mexico.

Nevertheless, some economists reckon that Chile's Central Bank has made things worse by zigzagging between worries about growth and inflation. Earlier this year it tried to halt the appreciation of the peso because of concerns this was curbing exports. Then in June it raised its benchmark rate by half a percentage point; it is expected to tighten again this week.

Given how tricky it is proving to control inflation, central bankers should probably have raised rates earlier. But finance officials could also do more to help. Fiscal spending in Latin America is very pro-cyclical, points out Santiago Levy, the chief economist at the Inter-American Development Bank. Research by the bank found that in the seven largest economies, on average governments have spent rather than saved 80% of the extra revenues they have derived from the commodity boom since 2002. Even in Chile, which saves most of the windfall, fiscal policy is expansionary, with public spending growing at double the speed of the economy.

The test will be whether or not inflation is heading down by the end of this year. If it is not, more drastic action will be required, which might make a big dent in economic growth. The wiser among the region's politicians know that, costly though it may be, the fight against inflation is one they cannot afford to lose. Already, price rises threaten to tip several million Latin Americans back into poverty. Brazil's president, Luiz Inácio Lula da Silva, though a man of the left, has given strong backing to the Central Bank's bitter medicine. Inflation is a "degrading disease", he says. It is a malady that long debilitated Latin America. That is why the region is relatively intolerant of it now.

Colombia

Celebrating Ingrid

Jul 10th 2008 | BOGOTÁ
From The Economist print edition

Former hostage, once and future politician

AFP


A family reunited at last

FOR Colombia and for its most famous hostage, Ingrid Betancourt, the week since her dramatic liberation by the army on July 2nd has been an extraordinary one. The success of the rescue operation, in which no shots were fired, has lifted Colombia's president, Álvaro Uribe, to the political stratosphere. Two instant polls gave him an approval rating of 91%. And the valour, dignity and political instincts shown by Ms Betancourt have unleashed speculation about her future role.

Within 48 hours of being free, Ms Betancourt travelled to France, where she lived for many years and where her children still do. She was feted as a heroine by President Nicolas Sarkozy, who had campaigned for her release. (Although in the event, he had nothing to do with it, as Ségolène Royal, his Socialist opponent in last year's election noted tartly.) It is not clear how soon she will return to Colombia.

But she has already emerged as a new factor in Colombian politics. When seized by FARC guerrillas in 2002, she had been campaigning for the presidency (albeit that polls gave her less than 1% of the vote). In captivity, Ms Betancourt worked almost daily with Luis Eladio Pérez, a fellow politician-hostage, on a 190-point government programme, written on sheets of lined notebook paper.

In another poll, for *Semana*, a newsweekly, 77% of respondents said they would vote for Mr Uribe if the constitution were changed to allow him to run for a third consecutive term in 2010. If not, Ms Betancourt would top the list of voter preferences with 31%, ahead of Juan Manuel Santos, the defence minister who organised her release, on 15%.

In interviews, she has been understandably cagey about her ambitions. The presidency seemed "very distant" she said, and there were other ways in which she could serve her country. Mr Pérez, who was released in February, said that once Ms Betancourt is ready they plan to create a new political movement.

In a brief political career, Ms Betancourt was a firebrand anti-corruption campaigner. She wrote a book about her experience, whose title in French is "La Rage au Coeur" ("Rage in my Heart"). But the politician who has emerged from her cruel captivity is "more tolerant and less arrogant", says Mr Pérez. She has praised Mr Uribe and defended his right to a third term, even while making it clear that she disagrees with his politics. She says more social spending is the way to improve security. That meshes with Colombians' concerns. Half those polled for *Semana* said fighting poverty should be the next president's priority. But the election is almost two years away, and before then much may change in Ms Betancourt's life and in Colombia.

Peru

Angry down south

Jul 10th 2008 | PUNO
From The Economist print edition

Would-be populists everywhere

LAST year the economy grew by 9% and poverty fell by five percentage points. But many Peruvians feel their lot is not improving fast enough. That is especially so in the country's southern Andes. On July 8th-9th trade unions staged a general strike, claiming the government had reneged on various promises. While having little impact in Lima, the strike was widely backed in southern towns, with protesters blocking roads and the railway to the Inca ruins at Machu Picchu. Earlier this month miners struck to demand a bigger share of bumper mining profits. In the same cause a group in the southern department of Moquegua last month took scores of police hostage and burned government offices.

But it is to Puno, a poor and remote region of 1.3m on the border with Bolivia, that those Peruvians who fear an impending populist shift look most closely. The head of its regional government, Hernán Fuentes, clashes regularly with Peru's president, Alan García. He has attempted to legalise production of coca, the shrub from which cocaine is extracted. He is pushing for sweeping local autonomy. He is a fan of the socialist nationalism pursued by Venezuela's Hugo Chávez and Bolivia's Evo Morales, while abhorring Mr García's economic liberalism. The president and Mr Fuentes accuse each other of failing to implement government measures to help Puno, such as laws to create a second university there and a free-trade zone. “We are like oil and water,” Mr Fuentes says. “We have different ideas about Peru's political, economic and social future.”

Mr Fuentes was elected for a small party headed by Antauro Humala, a former army officer who staged an attempted coup against the democratic government in 2005, an incident in which five people were killed. Mr Humala's elder brother, Ollanta, narrowly lost the presidential election to Mr García despite—or rather because of—having noisy backing (and probably money) from Mr Chávez.

It is Mr Fuentes's ties with Mr Chávez, real or not, which cause alarm in Lima. He set up several Casas de ALBA, centres which promote friendship with Venezuela and send patients at its expense for free cataract operations there. Venezuela denies paying for these centres' political activities, and Peru's government has found no evidence of this. But Peru's Congress is conducting its own investigation.

Mr Fuentes insists this will find nothing. Rather than from his antics, a populist threat in Peru at the next election in 2011 may once again come from Ollanta Humala. He is doing his best to appear moderate.

But his proposal to increase the taxes on mining and oil companies commands widespread popular support.

Ecuador

Taking the headlines

Jul 10th 2008 | QUITO
From The Economist print edition

An asset seizure raises questions

Get article background

A DECADE ago the collapse of Filanbanco, Ecuador's largest bank, was the signal for a wrenching economic collapse that saw the country lose its currency (it adopted the dollar) and at least a million people, who left in search of jobs. Prosecutors accuse Filanbanco's owners, Roberto and William Isaías, who fled to the United States, of fraud and of owing $661m to the state Deposit Guarantee Agency (AGD). Rafael Correa, Ecuador's left-wing president, has berated the agency for failing to compensate savers.

On July 8th, on Mr Correa's orders, police and AGD officials seized almost 200 companies that they say are owned by the Isaías family. As well as cement and property businesses, these notably include two of the country's larger television stations, Gamavisión and TC Televisión, which have tended to be critical of Mr Correa. The president promptly installed a former aide as news editor for both the stations.

Mr Correa said that the government would sell all of the assets as soon as possible. The AGD hopes (perhaps optimistically) that they will raise around $200m. There was little immediate sign of censorship at the TV stations. But the government also closed down an opposition radio station this week. The seizures may well be legal, but some Ecuadoreans question the president's motives. He wants a new constitution, but polls suggest that he will struggle to gain the 50% of valid votes needed in a referendum later this year. A bit of banker-bashing may help: after football, it is Ecuador's most popular sport.

Fausto Ortiz, the finance minister, resigned over the seizures. Since taking office in January 2007, Mr Correa has run through ministers at the rate of about one a month. Mr Ortiz had worked to improve Ecuador's international financial standing. His replacement, Wilma Salgado, has campaigned for a debt moratorium. She has described "macroeconomic stability" as a "scarily neoliberal" concept. The risk premium on Ecuador's bonds rose sharply on the news of Mr Ortiz's departure.

Mr Correa sometimes takes pains to stress that he is not a clone of Venezuela's Hugo Chávez, who last year cancelled the licence of an opposition television station (because it had supported a coup attempt against him). Ecuadoreans now have the chance to judge this disavowal.

Argentina

Opera buffa

Jul 10th 2008 | BUENOS AIRES
From The Economist print edition

A landmark theatre's years of darkness

WHEN the Teatro Colón, Latin America's most famous opera house, closed for refurbishment in November 2006, Buenos Aires city officials vowed that it would reopen in time for its centenary on May 25th 2008. But when the great day arrived, the theatre's golden proscenium arch was still in pieces on the floor, alongside plywood boards, while scaffolding rose the full 28-metre (92-foot) height of its dome. To kick off the celebrations, the Colón's resident symphony orchestra was obliged to perform in a neighbouring theatre specialising in musicals, where it had to use microphones instead of relying on the opera house's fabulous natural acoustics.

Opened in 1908 and modelled on Milan's La Scala, the ornate 2,400-seat Colón is a treasured landmark, visited by some 70% of foreign tourists to Buenos Aires. Yet for years the theatre, paid for and run by the city government, suffered from physical neglect and labour strife. In 2005 a sudden strike forced the cancellation of an opera after the audience had taken its seats.

The refurbishment has been plagued by delays and lack of funds. After taking over in December, a new conservative mayor, Mauricio Macri, found that only 30% of the repairs were complete. He decreed that the theatre should remain shut until Argentina's bicentennial celebrations in May 2010. After a halt to re-evaluate the plans, the city recently signed a $2m contract with an international consulting firm to oversee the $40m project; officials expect work to resume this month.

Mr Macri also wants the Colón to become an autonomous agency, making it easier for its director to hire and fire. The theatre's staff of 1,500 is about 50% bigger than that of most of its European counterparts. The plan is to shrink the staff by a third through natural wastage.

Officials now have enough confidence in their revised timetable to have begun signing contracts with visiting stars for the 2010 season. The resident artistes will be happy to end their enforced exile in often unsuitable venues around the city. But opera-goers may have reason to miss the old Colón. Because the plans for the building were lost, nobody knows precisely why music sounded so good there. They will have to wait another two years to find out whether it still does.

China and Taiwan

First, we take the department stores...

Jul 10th 2008 | BEIJING AND TAIPEI
From The Economist print edition

Getty Images

After decades worrying about a mainland invasion, Taiwan is now courting one

IT WAS listed on the information board at Beijing's Capital Airport as an international flight. It departed from the international terminal. Passengers had to clear customs and immigration before boarding. Upon landing in Taipei, the crew of Air China 185 made a cabin announcement warning passengers against taking fruit into the "country" they were about to visit. But on no account would anyone in China dare call this non-stop journey an "international" flight. Like the check-in clerk and the immigration official at Beijing's airport, the flight's co-pilot can only giggle uncomfortably when asked to explain the contradictions. It is, after all, an article of faith in Beijing that "Taiwan is part of China".

The delicate and sometimes bellicose wrangling between China and Taiwan has long demanded painstaking terminological finesse. The opening on July 4th of regular direct charter flights between China and Taiwan marks important progress between the two sides. But the stubborn persistence of such word games also shows how far apart the two sides remain.

As indeed do the "direct" flights. For a variety of reasons, such as national security concerns and the lack of standard cross-strait aviation agreements, these charters must still take a lengthy detour through Hong Kong airspace. This is less cumbersome than the normal routine, which requires a landing and brief stopover in Hong Kong (or nearby Macau). But it still adds an hour and nearly 1,000km (625 miles) to the journey from Beijing to Taipei.

Niggling details aside, the arrival of the first flight on July 4th was treated as a big breakthrough. The plane was greeted in Taipei with celebratory arches of water blasted from airport fire-engines. Bigwigs on both sides were also in full-gush mode. Lien Chan, former chairman of Taiwan's ruling Kuomintang (KMT) party, said the flights "would make people around the world proud of this generation of Chinese." Wang Yi, Beijing's senior official dealing with Taiwan saw off the first flight from Beijing, speaking of "a new start" and "a rare opportunity for development".

For all the hullabaloo, though, these flights marked only an incremental advance. Similar flights began running five years ago during limited holiday periods, and have increased in frequency since. None of that dimmed the enthusiasm of the mainland tourists who enjoyed the chance to see for themselves a place they had heard so much about—for good and ill. Nearly 700 made the trip during the first weekend. They spent a short time taking in a carefully selected set of sights in Taipei before heading off to other parts of the island. One sensitive site they were not allowed to visit was the memorial to Chiang Kai-shek, a

former KMT leader and bitter foe of Mao Zedong who brought his government to Taiwan in 1949 after losing China's civil war.

The Chinese tourists were also prohibited from leaving their chaperoned groups. Taiwanese travel agents said this reflected concerns on both sides. Mainland authorities did not want to run the risk of attempted defections, and Taiwan wanted to keep potential spies from roaming where they should not. Exceptions, however, were made for shopping. Johnny Tsai, manager of the China Times Travel Service, said his group of 109 mainlanders were allowed to run off on their own at a department store in the southern city of Kaohsiung, and spent heroically there.

For the newly installed KMT government, that may be as important as any boost to the politics of cross-strait relations. Since taking office in May, President Ma Ying-jeou has faced pressure to reinvigorate the economy. Annual growth remains above the 4% mark and inflation below it, but share prices have been tumbling and concerns are growing over widening inequality and looming economic stagnation. Soaring fuel prices and a global slowdown limit Mr Ma's room for manoeuvre. An influx of well-heeled, free-spending mainland tourists therefore seems just the ticket. Some economists predict it could add as much as 0.5 percentage points to the annual growth rate.

Others doubt that. Mr Tsai wonders whether his first carefully selected group of the rich and "high-level" will be typical of future visitors. Chen-wei Lin of the opposition Democratic Progressive Party (DPP) says that the economic benefits of mainland tourism are unknown and that Mr Ma is overstretching when he promises worried Taiwanese that Chinese tourism will save their economy. Mr Lin also faults Mr Ma for failing to secure a matching cargo-flight arrangement, which he believes would be far more lucrative for Taiwan.

Nevertheless, the talk of new beginnings is not all hype. After eight years in which it shunned and berated the previous president, Chen Shui-bian of the more independence-minded DPP, China was pleased to see the KMT return to power in March with the election of Mr Ma.

By the time he took office, China had suffered a string of setbacks. Deadly unrest in Tibet had brought tension with the outside world. International sourness still lingers over its human-rights record, its links with repugnant regimes in Myanmar, Sudan and elsewhere, and its fitness to host the Olympics. It gained much kudos for its handling of the devastating earthquake in Sichuan in March. But in international affairs, China still badly needs to see something go right somewhere, and for the moment Taiwan is going least wrong.

Indian politics

The nuclear deal takes wing

Jul 10th 2008 | DELHI
From The Economist print edition

India's government replaces one troublesome ally with another

ON THE eve of this week's G8 summit, India's prime minister, Manmohan Singh, made a momentous announcement. While flying to the G8 shindig on Hokkaido on July 7th, Mr Singh told journalists that his government would "very soon" seek approval from the UN's International Atomic Energy Agency (IAEA) for a safeguards accord required by a controversial nuclear-co-operation deal with America. It submitted a draft on July 9th.

After months of tiresome bickering over the pact between the Congress-led coalition government and its Communist parliamentary allies, this was a coup for Mr Singh. He is believed to view the deal with America, struck three years ago but recently seeming dead, as his government's finest achievement. It would enable nuclear-armed India to import nuclear fuel and technology for civilian uses—despite its refusal to sign the Nuclear Non-Proliferation Treaty. This, its supporters and critics agree, would be hugely significant, making India an exception to the global counter-proliferation regime.

AFP

Singh takes the nuclear plunge

But the deal is not done yet. Besides the IAEA, India has to convince the 45-member Nuclear Suppliers Group (NSG) to rewrite its rules and then America's Congress votes on the whole package. The NSG's sign-off might be especially elusive. Several European countries have concerns about the deal, and China may stealthily wish to spoil its populous rival's party. In India itself, opposition to the deal could yet topple the government, though this seems less likely by the day. Still, some observers found it apt that, as Mr Singh issued his historic promise, his head was in the clouds.

On July 9th, in response to Mr Singh's announcement, the Communists withdrew support from the government, depriving it of a parliamentary majority. They promise to move a no-confidence vote soon after Parliament next meets on August 11th. But Mr Singh seems happy to fight—hence his in-flight announcement. This is because, in deft and shady negotiations, his government has won new support, from the Samajwadi Party (SP).

An outfit of low-caste Hindus, backed by many Muslims and led by Mulayam Singh Yadav, the SP is based in India's vast northern state of Uttar Pradesh (UP). Until recently Mr Yadav, who has thrice led filthily corrupt governments there, opposed the deal. With an eye on his Muslim support, he was also avowedly anti-American. When Mr Bush visited Delhi in 2006, Mr Yadav rallied protests against him.

But now, it seems, he considers the deal crucial to India. By recruiting Mr Yadav's 39 MPs (two of whom reside in prison), plus half a dozen votes from two tiny SP allies—and maybe an independent or two—the government reckons it can scrape a majority together. It is not certain it will succeed. Yet it, too, is promising a vote on the nuclear deal, perhaps in an emergency session of Parliament this month.

Congress will pay plenty for the SP's new support. Mr Yadav and his right-hand, Amar Singh, are said to have demanded the heads of several ministers, including the finance minister. They have also demanded a string of surprising economic measures, including a ban on exports of petroleum products—allegedly at the behest of supporters in business.

On such issues, the SP may not have its way. But it will almost certainly win generous terms from Congress in an agreement to co-operate in the next general election, due by next May. In a state poll in UP last year, the SP was trounced by its main rival, the Bahujan Samaj Party. Congress, which once had UP for its own, fared even worse. Yet the dying embers of Congress's support were enough to persuade the SP that, if added to its own base, they might reverse its fortunes in UP.

Conceding the state for the sake of the nuclear deal seems a reasonable trade-off for Congress. On its own, the party would struggle to win even half a dozen of UP's 80 parliamentary seats. But the state is the ancestral home of the Gandhi family, Congress's dynastic rulers. Bending the knee there will leave a sour taste.

Thailand

In the dock

Jul 10th 2008
From The Economist print edition

Legal cases mount against the former prime minister and his allies

ENEMIES of Thaksin Shinawatra, Thailand's deposed prime minister, hope that a sudden blitz of court cases will achieve what protracted street demonstrations and even a military coup failed to do: finish off him and his allies for ever. On July 8th the Supreme Court in Bangkok began hearing the first of several criminal cases against Mr Thaksin and people close to him. In a separate case the court banned one of his lieutenants from politics for five years, which could trigger the disbanding of the pro-Thaksin People's Power Party (PPP), the winner of December's election.

The Constitutional Court was also busy: it struck down an agreement the government had reached with Cambodia in a territorial dispute over a Hindu temple—a ruling that prompted the foreign minister's resignation and could eventually lead to criminal charges against the whole cabinet.

When the army toppled Mr Thaksin in September 2006, following months of protests against him, it cited "rampant corruption" in his government as one of its main justifications. But it has been a long struggle to muster convincing evidence. Until a few weeks ago it looked possible that no charges might ever reach court. Now, however, things are moving fast.

In Mr Thaksin's first trial he is accused of having, when prime minister, influenced a state agency to sell his wife some land in Bangkok for well below its market value. In June three of his legal advisers on the case were jailed after giving court officials a bag holding 2m baht ($60,000). They said it had got mixed up with another, containing chocolates—but the court decided it was blatant attempted bribery.

Mr Thaksin's original party, Thai Rak Thai, was dissolved last year by a tribunal created by the coupmakers but his allies regrouped in the PPP and won the largest number of seats in December's polls. It now rules in coalition with five small parties, with Samak Sundaravej, Mr Thaksin's self-described "proxy", as prime minister. Now the PPP risks disbandment. The Supreme Court this week barred Yongyuth Tiyapairat, a PPP parliamentarian, from office for vote-buying. Since Mr Yongyuth is a party boss, the Election Commission can now ask the courts to judge the PPP itself guilty and disband it.

Various other cases are due in court soon, including one in which the Thaksin government allegedly made illegal loans to Myanmar so it could buy services from a telecoms firm then owned by Mr Thaksin's family. Similar accusations are being made in the case of the disputed Preah Vihear temple on Thailand's border with Cambodia. Mr Samak's government signed an agreement supporting Cambodia's bid to have the temple recognised as a "world heritage" site (which a United Nations committee accepted this week). The opposition accuses the government of selling out Thailand's sovereignty to help Mr Thaksin's business interests in Cambodia. This week's ruling that the agreement was unconstitutional, because parliament was not consulted, may now be used to press charges against Mr Samak's cabinet.

Sadly all this judicial activity does not seem to amount to a thorough cleansing of Thailand's endemic political corruption and impunity. Thaksinites see the cases as part of a plot by their foes—Bangkok's conservative, royalist elite—to destroy them. Thailand's poorer, rural majority may indeed feel angry that they keep voting for Mr Thaksin and his allies, because they like his policies, such as cheap health care and microcredit schemes, only to have their will frustrated by the capital's elite.

The Thaksinites hope that even if ousted from office again they can regroup once more and win another popular mandate. They are said to have created yet another party in case the PPP is banned. Their foes hope that, as guilty verdicts mount against Mr Thaksin and company, and as high inflation erodes living standards, popular support for Thaksinism will wane. Meanwhile the country faces more uncertainty, with the government fighting for survival instead of tackling Thailand's mounting economic problems.

Afghanistan

Pointing a finger at Islamabad

Jul 10th 2008 | KABUL
From The Economist print edition

Afghanistan accuses Pakistan after a car bomb kills dozens of civilians

AFP

WITNESSES said a blinding cloud of dust filled the air after a car exploded at the entrance to the Indian embassy compound in Kabul, early on July 7th. The dust cleared to reveal scenes of carnage in which, as with most suicide attacks in Afghanistan, civilians were the main victims. With 41 dead and 139 injured, it was the deadliest attack in Kabul since the American-led invasion to overthrow the Taliban in 2001. Many of the victims had been queuing for Indian visas but the dead included two Indian diplomats.

The Afghan security forces' improving capability seems to be helping to cut the number of successful suicide attacks in Kabul. But the bombers who do get through seem more sophisticated than before and more aware of the publicity value of high-profile targets. The Taliban denied responsibility for the latest attack. In the past they have avoided admitting culpability when large numbers of civilians have died.

Within hours of the blast Afghan officials were making thinly veiled insinuations against Pakistan and its Inter-Services Intelligence (ISI) agency. "Everything has the hallmark of a particular intelligence agency that has conducted similar terrorist acts inside Afghanistan in the past," said President Hamid Karzai's spokesman.

India's press and some of its officials reached the same conclusion, though the Indian government made no public attack on Pakistan: officials said they were too worried about provoking the collapse of its fragile new democratic government to start a new round of sabre-rattling between the two regional foes.

Afghan officials had no such qualms. A long-running war of words between Kabul and Islamabad over the alleged role of the ISI in the Taliban insurgency has intensified lately. President Karzai rather unrealistically threatened in June to send the fledgling Afghan army into the tribal areas of Pakistan to hunt Taliban militants.

Western officials acknowledge privately that at least elements of the ISI are engaged in aiding and training the Taliban. But, to sow dissension between Afghanistan and Pakistan, attacking India might be attractive to the Taliban anyway. And, of the big foreign embassies in Kabul, analysts say that India's offered among the least-protected targets. Some observers also point out that it serves the interests of Mr Karzai's government to focus anger against Pakistan in the build-up to the 2009 presidential elections, given public disquiet over huge food-price rises, the uneven distribution of foreign aid and government corruption and incompetence.

If the ISI were involved, it would not be hard to imagine possible motives. In recent years India has become a big donor to, and trade partner of, Afghanistan. Pakistan has become alarmed by India's growing clout. Pakistan has historically sought to keep Afghanistan as a client, providing "strategic depth" in the event of an Indian invasion. Pakistan in turn accuses India of spookery along the Afghan-Pakistani border and of supporting separatists on the Pakistani side. In his latest book, a leading Pakistani commentator, Ahmed Rashid, gave a warning that India's growing influence since 2001 had "stirred up a hornet's nest in Islamabad, which came to believe that India was 'taking over Afghanistan'."

The Ainu

A people, at last

Jul 10th 2008 | SAPPORO
From The Economist print edition

Overdue recognition for Japan's ethnic minority, before it disappears

MORE than most countries, Japan thinks of itself as uniquely homogenous and, in terms of language, culture and origin, ethnographers broadly agree. But the fair-skinned Ainu—supremely hairy of body, with luxuriant beards on the men and tattooed lips on the women—are the notable exception.

EPA

Belatedly recognised

Or were. The Ainu's traditional heartland is Hokkaido, the northernmost of Japan's four main islands, on which the G8 summit has just been held. Not long ago, they were also found in Sakhalin and the Kurile islands. Although there had been a Japanese presence in south-west Hokkaido since the Middle Ages, it was only in the 19th century that it was annexed to become what the West was for America: a new frontier to be opened by persecuting the hunter-gatherers already there. While the Ainu called their place Ainu Mosir, "the land of human beings", Hokkaido means "the road to the northern sea", and the Japanese settling of their new frontier was every bit as brutal as America's.

Today only 24,000 call themselves Ainu, most of them of mixed blood. Only ten native Ainu speakers remain, while a solitary century-old woman is thought to have a tattooed lip. The Ainu's origins are vague. Certainly, they are related to ethnic groups in Russia's far east. But one genetic marker is shared only by people in Tibet and the Andaman Islands. Jared Diamond, a biogeographer, says their mystery makes the Ainu the world's most studied indigenous group. One thing is increasingly clear: they are more obviously the descendants of Japan's original inhabitants, the Jomon, inventors of the world's earliest pottery, than are modern Japanese, who are descended from later settlers from Korea. This infuriates Japan's racial chauvinists.

So only now—and partly because of the spotlight from hosting the G8—has Japan's parliament passed a resolution recognising the Ainu as a people in their own right. The first law about the Ainu that was passed, in 1899, defined them as aborigines in need of assimilation. But until the law's repeal in 1997, Japan officially denied having any indigenous minorities.

The recognition, says Tadashi Kato, head of the Ainu Association of Hokkaido, comes dangerously late. But it may encourage more Ainu to admit to their identity, having concealed it because of discrimination at school and work, and in the marriage market. Mr Kato thinks that maybe ten times more than the official number think of themselves as Ainu, even if many are of mixed blood. He argues that the parliamentary resolution is just a first step. It offers no legal protection, and carries no obligations for the state. There is little talk yet of an apology for Japan's past treatment of the Ainu, let alone a restitution of lands or hunting rights.

Today, the Ainu's dances, handicrafts and animist beliefs are on display mainly for touristic consumption.

Their traditional respect for nature is much in vogue with urban Japanese in search of a more innocent Japan. But it is unclear how these purists would take to a revival of what once was the Ainu’s central ritual, called *iyomante*. This involved the public sticking of a giant bear, considered a god whose spirit could return to heaven only through prolonged taunting and death.

India’s manual scavengers

Clean-up

Jul 10th 2008 | ALWAR AND DELHI
From The Economist print edition

How to abolish a dirty, low-status job

PEOPLE cross the street to avoid Baby, a sweet-faced young woman dressed in a cherry-red *salwar kameez*. It is the wide iron pan and wire brush she carries that mark her out as someone to be avoided: these are the ancient tools of the “manual scavenger”, a euphemism for those who clean up the faeces from houses that lack flushing toilets.

Manual scavenging was banned in 1993 by a law that also forbade the unplumbed toilets that necessitate it. But implementation has been slow. So several hundred thousand scavengers are still at work. A recent report by Delhi University found more than 1,000 in the capital doing a job that in effect renders them *dalits*—untouchables, as they used to be known. After Baby has finished her morning’s work—for which she earns 75 rupees ($1.73) of extra spending money a month—she scrubs herself clean with soap. But she is still treated as a pariah: “Shopkeepers drop the rice to me; they won’t touch me,” she says.

Unlike many of India’s social ills, manual scavenging could be eradicated fairly easily. Most of this work is done in towns and cities, where the scavengers have a reasonable chance of finding other work. And affordable, hygienic toilets are available: Sulabh, a charity, has developed an ingeniously simple one, costing around $100, that empties into one pit, and then, when it is full, another. It flushes with two litres of water, compared with the ten litres required by a standard cistern toilet. It takes ten people two years to fill one pit, by which time the waste in the other has turned into composted manure, clean enough for growing vegetables.

Sulabh has built 1.2m of the latrines across India and helped 60,000 scavengers find new work. “The toilet is a tool of social change,” declares Bindeshwar Pathak, a (high-caste) brahmin who started the charity in 1970 and has developed a passion for lavatorial technology. So indeed it seems at Sulabh’s training centre in Alwar, in western India, where dozens of scavengers have learned cleaner ways to earn money, from pickle-making to tailoring. One of their best-selling products is the tiny white wick used in the oil lamps of Hindu temples. Lalita Nanda, an ex-scavenger who is bundling the wicks into bags, says with a grin that they are all bought by priests who until recently would not let her cross the threshold of their temples.

Israel and Iran

Coming to a city near you?

Jul 10th 2008
From The Economist print edition

Be very afraid, please

Reuters

AMERICA and Israel often hint at military action to stop Iran's suspected nuclear-weapons programme. The latest rumblings, however, may be more serious. The atmosphere has been charged by a combination of factors: Iran's expanding uranium-enrichment programme, faltering diplomatic efforts to halt it, a dying American administration and a nervous Israel. Throw in the latest war games by Israel, America and Iran—and Iran's apparent rejection of the latest international incentives to halt its nuclear work—and some reckon the sparks could soon fly.

On July 9th Iranian television showed the test-firing of nine missiles (see picture), a day after an aide to the supreme leader, Ayatollah Ali Khamenei, threatened to "burn" Tel Aviv and American ships in the Gulf, and strike at America's "vital interests around the globe", if it were attacked. More tests took place on July 10th.

This was a response to Israel's demonstration of its own long arm in June, when about 100 Israeli jets took part in exercises that appeared to rehearse the bombing of distant targets. Western officials were struck by helicopter sorties of more than 800 miles (1,290km), about the distance from Israel to Iran, to simulate the rescue of downed pilots. Israel conducted the exercise with Greece, rather than its traditional partner, Turkey, maybe because Greece has some of the Russian SA-20 anti-aircraft missiles Iran recently bought.

In the Gulf, meanwhile, American, British and Bahraini ships are involved in a joint exercise to protect gas and oil installations. This seems to be a reaction to Iran's threats to retaliate against any attack by closing the Strait of Hormuz, the passage for roughly 40% of the world's traded oil, and striking at neighbouring countries.

Does this public bellicosity really make military action more likely? Mahmoud Ahmadinejad, Iran's president, dismissed the idea this week as a "funny joke". And, yes, Israel could well be bluffing, waving its big stick in order to make the rewards the Europeans, Americans, Russians and Chinese are offering Iran in return for an end to uranium enrichment look more tempting. But whether or not Israel has frightened Iran, it has clearly rattled others.

France's Total, an energy giant, said this week it was giving up plans to invest in Iran because of the risk.

A top British government official puts the chance of an Israeli strike at 30%. Admiral Mike Mullen, chairman of America's Joint Chiefs of Staff, was worried enough to say publicly that a third war (after Afghanistan and Iraq) would be "extremely stressful, very challenging, with consequences that would be difficult to predict". As to whether Israel might act alone, he said: "This is a very unstable part of the world, and I don't need it to become more unstable."

One uncertainty is how close Iran is to being able to make a nuclear weapon (an aspiration it vehemently denies). America's controversial National Intelligence Estimate, made public in December, said that Iran had indeed run a weaponisation programme but seemed to stop it in 2003. The Iranians continue (despite UN sanctions) to enrich uranium, but most Western experts think they have much to learn before being able to make the high-enriched variety for a bomb. America's estimate is that the soonest Iran could make enough for one device would be the end of 2009, but that it could take five or more years longer.

Israeli officials are less sanguine. So far Iran has produced only a small amount of low-enriched uranium, but this could eventually be converted to the bomb-making sort. For all its sabre-rattling, Israel still says that diplomacy is preferable to war. But a number of political and military considerations may yet convince Israel to act alone—sooner rather than later.

One of these is the departure of the friendly Bush administration and the possible advent of a President Obama, who has promised to do "everything" to stop Iran getting a bomb but who is distrusted by many Israelis. Another is that Iran's Russian-built reactor at Bushehr is due to start working in October. This is less worrying than the underground enrichment facility at Natanz. But if Israel intends to bomb it, it would be best to do so before it is loaded with nuclear fuel. Finally, it would be easier for Israel to act before Iran deploys its SA-20s, which may happen in early 2009.

That said, an effective attack against Iran's buried and dispersed nuclear facilities would not be easy, even if Israel knew where all of them were. There will be no element of surprise, as when Israel bombed Iraq's nuclear reactor in 1981, and a Syrian facility which America said afterwards was a secret reactor last September.

Another unknown is whether Israel would dare to strike Iran without a green or at least an amber light from the Americans. Without one, flying to Iran the direct way—through American-controlled Iraqi airspace—would be fraught with danger. An unauthorised Israeli strike that added to America's miscellaneous woes in the Middle East would test even the closest alliance, jeopardising Israel's relationship with its vital patron and armourer.

Against this must be weighed Israel's visceral sense of vulnerability, sharpened not only by the Jewish state's history but also by the implacability of Iran, whose government rules out any accommodation with the "Zionist regime" and repeatedly predicts its disappearance. Nobody can be quite sure that in a corner, confronting what it believed to be existential peril, Israel will not act—alone if necessary.

Israel

The battle for the territories

Jul 10th 2008 | JERUSALEM
From The Economist print edition

Anti-settlement activists are starting to score some victories

AFP

New weapons against the settlers

ISRAELIS can choose a new way to spend their summer holidays this month. Peace Now, a veteran peace organisation, is inviting people who have never been to the West Bank to take one-day tours of the settlements, checkpoints, separation barrier, segregated road system (some roads for Israelis, others for Palestinians) and other paraphernalia that support Israel's presence in the occupied territories.

The aim is to stir up the silent majority of Israelis which is believed to support giving up at least some of the West Bank settlements and vacating the land to create a Palestinian state, but is apathetic about it. The 2005 "disengagement", when the government took down the settlements in the Gaza Strip and a part of the northern West Bank, showed that although the religiously motivated settlers are a small minority, they are far better organised. The more fanatical ones have continued building illegally, attacking Palestinians and generally showing contempt for the law, and the authorities seem to have been powerless to crack down on them.

But in the last few years a small core of anti-settlement activists has become more aggressive too. In 2006 Peace Now used data collected by the government itself to calculate that some 40% of land allocated to settlements is actually Palestinian private property, not state land as the settlers claim. (Settlers dispute this, but it is clear that at least a sizeable proportion of the settlements were built on land acquired illegally or under dubious circumstances.)

Technology has helped. Peace Now is using satellite photos to track the growth of settlements and to show where building is going on without permits or in defiance of court orders to stop. B'Tselem, an Israeli human-rights organisation, has given small video cameras to Palestinians who suffer frequent attacks from extremist settlers. Though soldiers and police in the West Bank frequently take the settlers' side in such cases, the cameras give prosecutors usable evidence. This week police nabbed two settlers who were filmed beating a Palestinian tied to an electricity pole. Another two were arrested last month after a group of men was caught on camera clubbing a family of shepherds (a video which was posted on YouTube).

Also new is a shift in emphasis: turning the settlements from a political issue, which seems to have little traction with a cynical public, into a legal one. "We're not saying that Israel shouldn't have settlements," says Dror Etkes, who headed the Peace Now anti-settlement project. "Go settle on the moon if you want to. Just show us that you are applying your own laws in what you're doing." Using the database he compiled, he is now working with B'Tselem and another group, Yesh Din. They plan to pepper the court system with dozens of cases of illegal building.

Some of their targets are “unauthorised outposts”—mini-settlements that have been set up without a permit. In some cases the government has already promised the courts (and the Americans) that it will take them down, but has done nothing. Others, however, are in established and (from Israel’s own point of view, at least) supposedly “legal” settlements. Last month Mr Etkes launched his first salvo by petitioning the supreme court to enforce existing stop-work and demolition orders on nine houses which are being built in Ofra, a town of some 2,500 people in the heart of the West Bank. (According to his data, 93% of Ofra is built on private Palestinian land.)

The settlers responded by speeding up the building. Ofra’s rabbi even issued a religious edict that the commandment to settle the land overrides the prohibition on making non-Jewish employees work on the Sabbath, so that construction workers could build round the clock. Now the two sides are battling it out in court amid a flurry of injunctions.

Mr Etkes says he has few hopes that the authorities will evacuate or destroy houses; they have ignored too many court orders in the past, and the settlers invariably fight with every means at their disposal, burdening the police and whipping up a storm in the media. His ambition, he says, is simpler: “to force the state to admit again and again…that it acted illegally” by permitting the construction. Only constant shaming, he thinks, might eventually provoke a political change.

Zimbabwe

After the storm, the stalemate

Jul 10th 2008 | JOHANNESBURG
From The Economist print edition

A negotiated end of the power struggle looks far off

THERE were more harsh words for Zimbabwe's president, Robert Mugabe, this week, as well as more promises of tough action against his regime following his re-election in a sham one-man run-off on June 27th. But, equally, there was also more evidence that the world remains divided—and often bitterly so—on what to do about him. The only person who profits from these divisions is Mr Mugabe himself.

The Zimbabwean impasse figured high on the agenda of the G8 gathered in Japan. Prompted mainly by Britain's prime minister, Gordon Brown, the rich-countries' club, including Russia, heavily criticised the Zimbabwean election, saying that they would not accept the "legitimacy" of Mr Mugabe's new government. The G8 promised to take "further steps" against 13 of Mr Mugabe's inner circle who are responsible for organising most of the violence in the country. Targeted sanctions and an arms embargo were expected to be proposed at the UN Security Council. Some African countries, such as Botswana and Nigeria, also condemned the election. It is unfortunate that Zambia's president, Levy Mwanawasa, suffered a debilitating stroke last week; he had become one of Mr Mugabe's most effective critics.

But, again, several African countries objected to any further sanctions; South Africa's president Thabo Mbeki said that sanctions could lead to a civil war in Zimbabwe. And, despite Russia's apparent show of unity at the G8, neither it nor China could be relied upon to back a strong resolution on sanctions at the UN. It is a familiar split. Instead, these countries insist that Mr Mbeki's mediation efforts between Mr Mugabe and the opposition Movement for Democratic Change (MDC) be given more time to succeed—a process that some Western leaders have now lost patience with.

Both sides say that they want to talk. But their positions still appear irreconcilable. The MDC insists that it will not participate in any proper negotiations unless violence stops, political prisoners are released, those who have fled violence are repatriated and humanitarian assistance is allowed to resume. Having lost faith in Mr Mbeki, the MDC also wants a full-time mediator from the African Union. It has rejected the idea of a government of national unity, but advocates a transitional administration based on the results of the first round of voting on March 29th—which it won—leading towards fresh elections. Mr Mugabe, for his part, insists that the opposition recognise his flawed re-election.

A plan floated by Mr Mbeki before the run-off, which would leave Mr Mugabe as a ceremonial head of state and give the opposition executive power, appears to have little chance of success. The South African president, eager to show some progress in his faltering shuttle diplomacy, flew to Harare on July 5th and met Mr Mugabe and Arthur Mutambara, the leader of a small MDC splinter party. This raised some hopes. But the MDC leader, Morgan Tsvangirai, resisting pressure from Mr Mbeki, stood his ground and refused to participate. Mr Mutambara later said that he attended the talks only because he thought Mr Tsvangirai was going to be there as well; Mr Mutambara insists that there will be no deal without the main MDC group.

In the meantime, political violence shows no sign of abating. According to the MDC, at least 20 activists have been killed since the run-off, bringing the total of confirmed deaths since the first round in March to over 100. Dozens of opposition supporters are still missing and 1,500 or so remain behind bars. This week, the body of an MDC driver abducted in Harare last month was finally found, burned and decomposing on a farm about 30km outside the capital. He had been tortured before being shot. Armed militias were also reported to have attacked two camps near Harare where people fleeing the violence had taken refuge after seeking shelter in the South African embassy.

Mr Mugabe's ruling ZANU-PF also appears determined to reverse the majority that the opposition won in the National Assembly for the first time since the country's independence in 1980. Besides results being contested in court, nine lawmakers from Mr Tsvangirai's camp have been arrested or abducted since the first round of voting. The combined opposition holds 110 seats against ZANU-PF's 97.

Mr Mugabe is unlikely to relent unless under serious, concerted pressure. But, as usual, it is hard to see exactly where that is going to come from. Even now, the wily Zimbabwean liberation hero seems to be outwitting his rivals, mediators and enemies in almost equal measure.

Kenya

A finance minister resigns

Jul 10th 2008 | NAIROBI
From The Economist print edition

Trouble ahead for a governing coalition that has fared better than expected

Reuters

IN THE six months since Kenya's electoral crisis the country has, in many ways, done better than expected. About 1,500 Kenyans died in the weeks following a disputed election, but the killing has abated and efforts are under way to resettle some of the 300,000 people displaced in the violence. At the top of the new government of national unity relations between the president, Mwai Kibaki, and the prime minister and former leader of the opposition, Raila Odinga, are distant but respectful. The country has won plaudits for speaking out against Zimbabwe's election-stealing president, Robert Mugabe. The economy, which took heavy blows in January and February, is recovering too. Although tourism is still in the doldrums, tax revenues were up 20% last year, exceeding the target by $143m.

Still, the distrust of politicians felt by ordinary Kenyans persists, especially after the exposure of a complex saga involving the sale of a government-owned luxury hotel in Nairobi to a Libyan company. Caught out by the media, heckled by fellow ministers and subjected to the indignity of a vote of no confidence in Parliament, the finance minister, Amos Kimunya, was forced to resign on July 8th, two days after insisting that he would rather "die" than leave office. Mr Kimunya said he had only "stepped aside" to allow for an investigation and denies any wrongdoing. Mr Odinga called the decision "honourable".

The Grand Regency Hotel, just a few streets from the parliament building, has come to haunt Kenyan politics. It became government property after it was confiscated from Kamlesh Paul Pattni, a local businessman alleged to have organised a scam in which the state paid hundreds of millions of dollars to individuals close to Mr Kibaki's predecessor, Daniel arap Moi, for the export of gold and diamonds that did not exist. Sources say Mr Pattni, now a Christian tele-evangelist, may have handed over the hotel in exchange for immunity from further prosecution. Under Kenya's procurement law, the hotel should have been advertised for sale and bids received, but Mr Kimunya sold it directly to the Libyans, assisted by the central bank. He at first denied the deal, then said it was "too sweet to resist" and that it strengthened ties between Libya and Kenya.

It is unclear how much was paid. Mr Kimunya insists it was a fair market price of $45m, though the hotel could be worth as much as $115m. Mr Odinga says $40m of the money is still in a lawyer's bank account. Leaked papers suggest it may have gone for $28m. That fuzziness in itself should be enough to ensure that Mr Kimunya will be cleared of any criminal wrongdoing; Kenya has yet to prosecute anybody significant for corruption.

The affair may, however, damage the stability of the coalition. Mr Odinga's Orange Democratic Movement, and particularly the lands minister, James Orengo, led the calls for Mr Kimunya to go. Mr Kimunya was loyal to Mr Kibaki and the Orange Democrats remain unhappy about the distribution of cabinet posts. They would like to control the finance ministry themselves. But those close to Mr Kibaki have made it clear that if Mr Kimunya does not return the president will appoint a replacement from his own Party of National Unity. That could spark a new tussle.

On the other hand, the episode could encourage cleaner government. That would be good for Kenya. Murky deals are liable to persist, not least because politicians on both sides owe a lot of money to their electoral backers. But legitimate business is looking more attractive, and the boundaries of official misbehaviour might at last be narrowing.

Economist.com WORLD EUROPE

Russia's presidency

The odd couple

Jul 10th 2008 | MOSCOW
From The Economist print edition

The world still wonders whether Dmitry Medvedev or Vladimir Putin is boss

Illustration by David Simonds

WHEN the other G8 leaders met their new Russian counterpart in Japan this week, they may all have had a similar question on their minds: are we talking to the right man? Is Dmitry Medvedev, described by George Bush as a "smart guy", a real president? Or is he merely Vladimir Putin's puppet and stand-in? So far, the answer seems to be: neither.

At the summit, Mr Medvedev behaved modestly and stuck to the Kremlin line defined by Mr Putin. Talking to Gordon Brown, he seemed no more accommodating than Mr Putin might have been over the closure of British Council offices, the murder of Alexander Litvinenko in London or the messy dispute within the troubled TNK-BP joint venture. If Mr Medvedev has potential as an independent decision-maker, he hid it well.

This is not surprising, given that authority still lies with Mr Putin. As prime minister, he controls the main levers of power, the state coffers and television. He is more popular than Mr Medvedev. Kremlin insiders call Mr Putin "the boss", referring to Mr Medvedev by his diminutive, Dima or Dama (Russian for dame).

Yet Mr Medvedev is more than Mr Putin's obedient shadow. He is, after all, Mr Putin's choice as potential successor. Whether the potential is realised depends on Mr Putin's own moves. Most observers agree that today's dual-power structure is part of a transition. The question is whether it is a transition to Mr Putin's return to the Kremlin—or his retirement from power.

Mr Putin still has the chance of coming back as president. But he may not take it. It is equally possible that he will gradually move away, leaving Mr Medvedev in charge. Had he really wanted to stay in the Kremlin he could have remained president. There was little to stop him changing the constitution to allow himself a third term in office; after all, he had played fast and loose with it over many other issues.

Mr Putin also displays no apparent interest in his new job. He comes into the office little more than once a week and he often looks bored and irritated when shown on television dealing with mundane tasks. Those who have worked with Mr Putin in the past say that he would much rather enjoy a luxurious new lifestyle than concern himself with the price of milk.

So why has he not left? One explanation is that the security risks, for himself and his closest circle, are

too high. He is safer in high office. The post of prime minister confers immunity on Mr Putin and offers protection to his friends.

The fortunes made by the new clan of Kremlin oligarchs have not been legitimised or swapped into liquid foreign assets. Russia's largest oil company, Rosneft, which took over the assets of the Yukos oil company, is still open to lawsuits from Yukos's shareholders. The Yukos case could come to the European Court of Human Rights this year. In London Roman Abramovich, a tycoon who prospered in the Putin era, faces a lawsuit over some business acquisitions. All this without Britain's accusations of Russian state involvement in the poisoning of Mr Litvinenko.

There are also domestic pressures. Inflation is running above 15% and food prices are rising even faster. The macroeconomic stability that Mr Putin prided himself on is looking shaky. One reason why inflation is on the rise is that the government is pouring money into state corporations and public spending. But a deeper problem is that rising consumer and investment demand cannot be satisfied by an economy that is constrained by corruption, Soviet-era infrastructure and an inadequate and immobile workforce.

Rising prices are now ordinary Russians' biggest concern, although they have not yet translated into protests. Fearing financial turmoil, people prefer to spend money than to save, particularly when real interest rates are negative, says Sergei Guriev, head of the New Economic School. The perception of stability linked to Mr Putin is proving fragile. A survey of the Russian middle class shows that half those polled do not find the situation stable, and most of those who do think it will not last. And despite growing real incomes, people feel their lives are not improving. The vast majority feel vulnerable to the arbitrary actions of corrupt state agencies.

Mr Putin and Mr Medvedev are well aware that the current system neither protects the property of the new oligarchs, nor provides a stable environment for growth. This may explain Mr Medvedev's talk of the need to modernise Russia's economic system and uphold the rule of law. The rhetoric does not mean Mr Medvedev is departing from Mr Putin's line; all the signs are that they are in agreement.

Mr Medvedev's elevation has prompted expectations of a thaw among the liberal wing of the elite, even if so far there is little to satisfy it. Politicians and think-tanks are writing democratic manifestos. For instance, a report commissioned by the Institute for Contemporary Development, patronised by Mr Medvedev, argues that no modernisation can be achieved without liberalising politics too.

Democracy, it says, is preferable not for ideological reasons, but because it is the only effective way of resolving conflicts among the elites and protecting their financial interests. Liberalisation must start from the top and be tightly managed by the Kremlin. "Medvedev has a difficult task: he is trying to match expectations but not to lose control over the process," says Alexander Auzan, a professor of economics in Moscow. By staying in power as prime minister, argues Boris Makarenko of the Centre for Political Technologies, Mr Putin at least has a chance to revise the legacy of his rule. Stepping aside would be the best measure of his success.

Missile defence

Getting to first base

Jul 10th 2008
From The Economist print edition

An American missile-defence radar in the Czech Republic infuriates Russia

IS IT wise to bargain hard with your best friend? This is the question for loyal Atlanticists of the Czech Republic and Poland, as they consider America's planned missile-defence bases.

The Czech approach is that anything that bolsters the fraying transatlantic security relationship is welcome. Neither the European Union nor NATO seems like a fully reliable bulwark against a resurgent Russia, so hosting an important American radar base adds a valuable extra dimension to Czech security. Condoleezza Rice, America's secretary of state, signed a deal on the radar this week in Prague. Although around two-thirds of Czechs oppose the radar, the government seems confident of surmounting the final hurdle, a vote in parliament.

The Polish approach is more muscular. In exchange for hosting a base with ten interceptor rockets (designed to deter any Iranian missile attack on America or Europe) the government has asked for billions of dollars to modernise its armed forces, plus Patriot air-defence missiles. Having first dismissed this out of hand, the Americans have shifted a bit, offering a temporary deployment of Patriots.

But no deal has yet been reached. Poland's president (who wants a deal at any price) is embarrassingly at odds with the government (which doesn't). Neighbouring Lithuania says it will happily host the missiles. The Americans sound huffy but are anxious to clinch the deal in time to give a rare foreign-policy success for the outgoing Bush presidency.

Yet success is not the word that leaps to every European lip. Some see the entire plan as divisive and unnecessary. America now portrays the missile-defence bases as a NATO project, but few see any difference. Vladimir Putin, Russia's former president, threatened to target nuclear missiles on European countries that co-operated with the missile-defence plan. This week the Russian foreign ministry said that the response to an American deployment would be not merely diplomatic, but "military-technical". That could mean bolstering Russian conventional forces in Kaliningrad, or in Belarus.

America swiftly rebuked Russia for its "bellicose rhetoric". It says Russia has nothing to fear from the installations and has been offered the right to join the project. The Poles and Czechs already feel uneasy about this offer (made over their heads). They are also fretful about American politics. What if an Obama administration watered down or cancelled the plan, leaving those who supported it twisting in the wind from the east?

Economist.com WORLD EUROPE

Women in Germany

Working mothers, unite!

Jul 10th 2008 | BERLIN
From The Economist print edition

Women have long been held back in Germany, but that is now changing

DON'T be fooled by the familiar presence of a guinea-pig in a cage, or the primary colours. Something radical is afoot at the Wolkenzwerge crèche, on the sixth floor of a Berlin office block. Parents drop their children before going to work at Axel Springer, publisher of the tabloid *Bild*, and pick them up at 7.30pm or later. Springer, no friend of liberation movements in the 1960s, helps pay for places at Wolkenzwerge to tempt mothers back to work.

That would seem less daring if it were not so rare. Germany has day-care places for only a sixth of children of under three (and that includes traditionally higher provision in the ex-communist east). This is one reason why German women lag their sisters in other rich countries in combining motherhood and work. Female employment is above average. But when (and if) they become mothers, women tend to drop out or go part-time. "So far in Germany, women had to make a choice [between children and career]," says Jeanne Fagnani of France's Centre National de la Recherche Scientifique. French and Scandinavian women feel much less pressure.

That pressure has consequences. Because of it, German women are more reluctant than most in Europe to have children. When they do, they take prolonged leave from work, damaging their careers. Women's average hourly wages are 22% lower than men's, a gap exceeded in the European Union only by Slovakia, Estonia and Cyprus. Chancellor Angela Merkel's sex may encourage some women, but not mothers: she is childless.

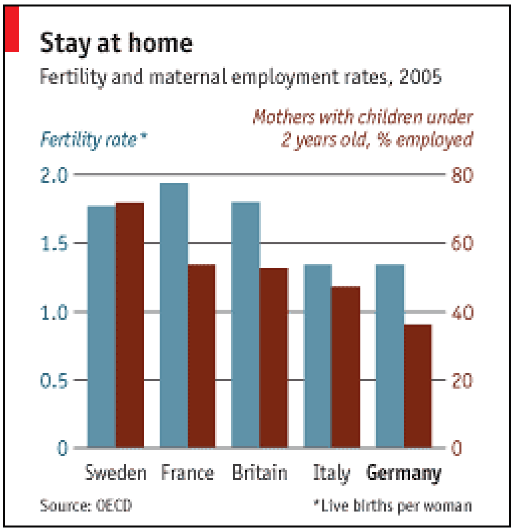
Part of the problem is that the Nazis' cult of motherhood outlived them (except in communist East Germany, which sent women to work and kids to day care). In capitalist West Germany until 1957, women who wanted to work had to seek permission from their husbands. A federal family minister created outrage in 1989 by suggesting kindergarten for two-year-olds. Working mothers still flinch at the word *Rabenmutter*, a mother who, supposedly like a raven, neglects her young.

Worried about Germany's low fertility rates, Mrs Merkel's CDU is promoting some radical changes. First came "parents' pay", to encourage middle-class women to have children without wrecking their careers. Introduced in 2007, this increased the value of paid parental leave to a ceiling of €1,800 ($2,830) a month for high earners, although it cut the maximum duration from two years to one (plus two months for the second parent, usually the father). This year the government approved a law to provide enough day-care slots for 35% of children aged three or less by 2013, and to guarantee parents a right to day care once their babies are a year old. This could "break the vicious cycle" that keeps mothers away from day care because they see it as abnormal, says Gisela Erler who runs Familienservice, a firm that manages day-care centres, including Wolkenzwerge.

The government seems to be pushing in the direction that younger Germans want to go. Whereas 70% of western Germans aged 65 or more believe that mothers should stay at home, fewer than half of 18-30-year-olds agree. For some women, the prospect of meaner public pensions sharpens the incentive to work. Business favours change, too. Girls gain better marks than boys in school and earn more than half of university degrees, which makes them attractive to employers struggling with skill shortages. A report by Deutsche Bank argues that firms are moving towards a collaborative "project economy" that demands more "soft skills" and flexible working practices.

Germany's birth rate jumped last year to its highest since 1990—thanks to parents' pay, perhaps, but it may also have owed much to the buoyant economy. Fathers may be assuming more

responsibility: some 18% took up the new parental-leave benefit. This was a "quiet revolution", claimed the CDU family minister, Ursula von der Leyen. As a working mother of seven, her party might once have regarded her as an embarrassment. No longer.



Yet the counter-revolutionaries are stirring. Defending "freedom of choice" for parents, conservatives in the government insisted that the expansion of day care be complemented by a €150 monthly payment to parents who prefer to raise their children at home. A television presenter sacked from her job last year for praising the Nazis' family policies may have been speaking for a silent minority.

The tax system still punishes earners of second incomes. Most primary schools send children home at noon, "which ruins the whole thing", says Ms Erler.

Social change is always slow. France's generous family policies date back to its defeat in the Franco-Prussian war in 1871, which persuaded its leaders that the country needed more soldiers, says Ms Fagnani. Over time, bigger families required better child care outside the home, a trend encouraged by the high number of women working in farming and textiles. German women are still fighting for similar treatment. They may at last be winning.

Austria's government

A grand unravelling

Jul 10th 2008 | VIENNA
From The Economist print edition

One grand coalition in a German-speaking country falls apart

AUSTRIA'S predilection for grand coalitions, which have governed the country for much of the post-war era, may be ending. This week its current left-right alliance broke up acrimoniously after only 18 months in office. Complaining of disarray among the Social Democrats and of the government's sharp U-turn over the European Union, the People's Party demanded a snap election, which will take place on September 28th. It will be closely watched to the north, in Germany, where another grand coalition is bickering and the Social Democrats are also in disarray.

The Austrian government's collapse owes much to the failings of Alfred Gusenbauer, the Social Democrats' leader. He unexpectedly became chancellor after narrowly defeating his People's Party rival, Wolfgang Schüssel, in 2006, but he lacked the leadership and charisma to manage an unruly grand coalition. As the People's Party took most of the senior cabinet posts and fended off serious policy changes, Mr Gusenbauer also lost the confidence of his own party. When the Social Democrats did badly in regional elections, he was forced to hand the leadership to Werner Faymann, the transport minister, last month.

Mr Faymann's first move was to shift his party's position on Europe by calling for referendums on any future EU treaty, despite the fact that Mr Gusenbauer had just refused to put the Lisbon treaty to a popular vote. The shift was announced in an open letter to *Kronen Zeitung*, an anti-European tabloid. Mr Faymann also walked away from a coalition deal on reining in spending on pensions. It was too much for the People's Party leader (and finance minister), Wilhelm Molterer.

In provoking an early election, Mr Molterer is gambling that voters will prefer his promise of responsible government to the populist message of the Social Democrats. The outcome is uncertain. Austrians rival the British in their Euroscepticism, and most are also against cuts in social spending. The real risk is that neither party can match the demagoguery of the far right.

Heinz-Christian Strache is hoping to push his Freedom Party back to the highs it enjoyed before his predecessor, Jörg Haider, joined a coalition government that suffered temporary ostracism by the rest of Europe. If the Freedom Party gets close to the 20% voting share predicted in most polls, the two big parties will face an unappealing choice: either join forces with an irresponsible rabble-rouser, risking a repeat of the country's 1990s isolation; or revert once again to a discredited grand coalition, with the built-in conflicts that make governing Austria so hard.

Charlemagne

Europe’s Tory nightmare

Jul 10th 2008
From The Economist print edition

Brussels is not prepared for what might hit it if Britain’s Conservative Party wins the next election

Illustration by Peter Schrank

A COMPLACENT calm reigns in Brussels a month after Irish voters rejected the Lisbon treaty. Eurocrats seem persuaded that Lisbon can be salvaged quickly if other countries are pushed to keep ratifying it, so that an isolated Ireland feels bound to hold a second vote. The maddest optimists have started talking of a new Irish referendum next March, allowing Lisbon to come into force before the European elections in June 2009.

Madder still are hotheads in the federalist camp who seem to yearn for Ireland to rule out a second vote. For they too have a plan ready: a two-speed Europe, with Ireland “invited” to move out of the way into the slow lane. Oddly, there is little debate about a third possibility that is surely more likely than either of these. What will EU leaders do if Ireland’s prime minister tells them this autumn that he is not ruling out another vote, but wants to delay? There is a recession, he might note, and the polls are iffy (say 49% for a yes); we rush this at our peril.

Here is another thought to dampen the confidence of the Brussels set. If opinion polls are to be believed, the Conservatives will form the next British government by the spring of 2010. As a Tory victory draws closer, two things may happen: the Irish will become harder to isolate; and talk of a two-speed Europe will become more dangerous and destabilising for the EU. In truth, for the two-speed Europe camp, little Ireland is barely a prize. But pushing a sullen Britain into an outer circle would clear the way for all sorts of Euro-integration. Such federalists have their mirror-opposites in Britain. Eurosceptic hardliners dream that Britain could negotiate a nice free-trade pact with the EU, like a giant Norway or Switzerland (but without as much fish or cheese). The odds are still against Britain walking out. But the country has changed in ways that Brussels underestimates. A cool-headed majority on both sides would surely regret it if Britain accidentally fell out of the union, without proper debate.

Today’s Conservatives would form the most Eurosceptic government since Britain joined the club in 1973. Unlike previous Tory bosses, David Cameron does not have to accommodate pro-Europeans in the party, let alone in his inner circle (just three Tory members of Parliament voted with the government on the Lisbon Treaty in March, and all were over 60). It is true that Mr Cameron does not want to “bang on” about Europe, alienating voters whose distaste for the EU is matched only by their desire never to hear anything about it. Indeed, the EU is unlikely to be one of Mr Cameron’s top three campaign themes. But once elected, a Conservative government is sure to pick some fights.

In the European Parliament, the Tories are committed to severing their formal link with the other main centre-right parties in the European People's Party, and to set up a new formation of more sceptical parties, taking in allies from the ex-communist east. Pro-European Tories fret that they will fail to find such allies and end up on the independent benches, denied the influence enjoyed by those in formal groups. But voters could not care less about influence in Strasbourg (in one poll, 88% of Britons could not name their members in the European Parliament).

On the Lisbon treaty, a new British government will face one of three scenarios. In the first, seen as easiest by the Conservatives, they come to office to find Lisbon abandoned, because the Irish have convinced other countries that they cannot hold a second vote. Even this may not be plain sailing. Other governments might start "cherry-picking" bits of Lisbon that can be implemented without a new treaty—including pushing ahead with scrapping national vetoes on some areas of cross-border justice, police and immigration policy. There would be calls to give greater legal force to the charter of fundamental rights, a sweeping catalogue of social and civil rights. Mr Cameron would swiftly find himself in the familiar territory of British opt-outs. As it happens, Lisbon offered Britain hefty opt-outs on both justice and the charter, which might well be offered again—but the Conservatives have already dismissed these as inadequate.

In a second scenario, Lisbon has not been ratified by all 27 countries when a Conservative government takes office. Outsiders assume this would be tricky for the Tory high command, forcing a knotty European dilemma onto their agenda. But insiders say it is quite simple: Mr Cameron would hold a referendum and campaign for voters to reject the treaty. Britain would then withdraw its ratification and Lisbon would be dead. One stunned EU diplomat says that "nuclear is not a strong enough word" to describe this option, and hopes that the Tories do not mean it. Conservatives say that they sincerely want Lisbon stopped.

Vote and be damned?

It is a third scenario that is the trickiest: one in which all 27 countries have ratified Lisbon, including Ireland, so that it is already in force as the union's rulebook when the Tories come to power. Anti-EU absolutists would push Mr Cameron to hold a referendum anyway, as a prelude to Britain renegotiating the treaty. Mr Cameron and his shadow foreign secretary, William Hague, have already promised that if they come to office to find the treaty in force, they will "not let matters rest there".

This assertion is a bluff. A post-ratification referendum would be a legal nightmare, with open-ended political consequences, and Tory leaders know it. More likely, they will push for something else: a repatriation of powers from Brussels in the field of social and employment laws (ie, more opt-outs). Though awkward, this might be doable given enough political will. But everything has a price in Brussels: Britain could end up losing over the EU budget, say, or its access to the single market might be compromised (it is not a level playing-field, rivals would grumble).

Europe faces a time of instability, in which Britain and other players do not have the measure of each other. That makes the calm that reigns in Brussels more than complacent: it is baffling.

Violent Britain

Island savages

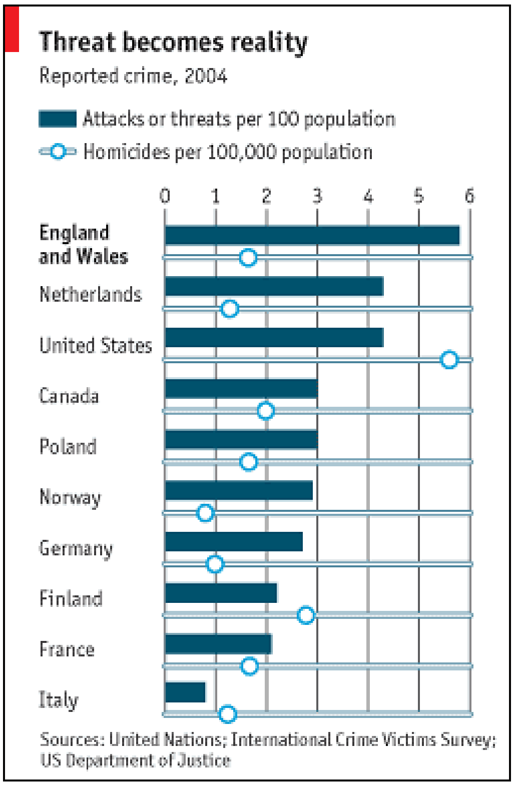
Jul 10th 2008
From The Economist print edition

Getty Images

How Britons became the angry men of Europe—and how to calm them down

LONDON, once seen as a quiet and respectable sort of city, is in the grip of a *culture de poignard*, the French press have taken to reporting. On June 29th two students from the University of Clermont-Ferrand were found horribly murdered in the British capital. The bodies of the young men—bound, multiply stabbed and set alight—have inspired horror on both sides of the Channel. A grisly run of teenage murders before this episode had already caused Britons to wonder what is up.

England and Wales are not unusually murderous (see chart). The homicide rate is higher than anywhere in western Europe except Finland, Belgium and indeed France (though Britain edges ahead of France when Scotland and Northern Ireland are included). But Britain looks gentle next to former colonies such as Canada, New Zealand and especially America. And it compares favourably with the EU average, thanks to the new eastern European states: in Latvia and Lithuania homicide is five times as common as it is in Britain.



But there is more to life than avoiding death. When it comes to non-deadly violence Britain soars alarmingly ahead of the rest. Cross-country crime comparisons are tricky, but the International Crime Victims Survey (ICVS) is the best of the non-homicide bunch. In it people from 28 rich countries are asked if they have been attacked or threatened in the past five years. Britain comes second (after tiny Iceland), ahead of countries with much higher murder rates.

It is tempting to say it was ever thus, summoning Caesar or Chaucer to prove it. But in 1988 the ICVS placed Britain only eighth in Europe for the incidence of threats and assaults, well behind America, Canada and the Antipodes. The subsequent catch-up is not due just to a fit of the jitters: Britain maintains its lead when assaults only, minus threats, are examined. A New Yorker visiting London is less likely to be murdered than he would be at

home. But he is more likely to be beaten up.

The evolution of Britain as a low-murder, high-violence society is in evidence every Saturday night, when many, stoked by alcohol, prefer an after-dinner fight to mints. Much of this goes unrecorded, as the British Crime Survey ignores victims under 16; yet even so, against a backdrop of generally falling crime, the figures for attacks by strangers remain stubbornly high. Doctors say that their wards see more stabbing victims, and injuries from guns have almost trebled since 2000. At the same time, however, homicide has been falling since 2003. Those guns that are injuring more people are killing fewer, and the number of those stabbed to death is stable.

So murder is not the problem. But it might suggest what is. Take London, where murder is at a nine-year low. A recent study by King's College London shows that the over-35s are being murdered less frequently but those under 17 are being murdered more often. From 2000 to 2006, between 15 and 19 teenagers were killed in the capital each year. Last year the figure hit 26; this year, only half-complete, 19 have died.

This changing profile might explain why, overall, injuries are up and murder is down: serious violence is becoming an amateur pursuit. "I was 16 eight years ago and it wasn't like that then," says Brooke Kinsella, a soap actress whose brother Ben was murdered on June 29th. Politicians "don't know what's going on. It's the people that live in their local communities that know and hear about these attacks every day," she told an interviewer. The day after her remarks, the Metropolitan Police said that knife crime had become their priority, ahead even of terrorism.

Ms Kinsella got five and a half minutes on the BBC to put her case. That is more say than most people have in how they are policed. Britain's 43 forces are answerable only to the home secretary and their local police authority, a weedy board of councillors, magistrates and assorted other appointees with little clout. Policemen may hold surgeries for local people, but they can take or leave whatever requests such meetings throw up. Instead, they are subservient to a rigid system of central targets, which has inadvertently encouraged coppers to focus on busting minor offenders rather than on keeping their patches safe.

This centralisation of control—which dates back to the 1960s, when corruption was a problem in many local forces—has also meant that the debate about how to deal with violence, or any other crime, takes place nationally. Everyone has ideas: the government wants a "presumption of prosecution" of those caught with knives; the Tories have trumped that with a "presumption of imprisonment". Cherie Blair, a former Downing Street spouse, weighed in on July 6th; Anglicans pondered the subject at their General Synod; and Catholics are planning a vigil. The only people who haven't had much of a voice are voters. Unlike America, whose elected sheriffs enjoy (and sometimes abuse) real power, Britain's police chiefs do not take orders from the people they protect.

Those savages: maybe not so dim

That is soon to change—a bit. A policing green paper, expected later this month, will introduce some kind of directly-elected local control. Various options are on the table. The Tories want to replace police authorities with elected police commissioners, who would set policing priorities as well as signing off on budgets. The government seems to be leaning towards a tamer option: preserving the police authorities that now exist, but insisting that their members be elected. Home Office research shows that the "vast majority" of Britons have never heard of police authorities, and most of those who have don't know what they do. It is hard to imagine chief constables being bossed around by anonymous people elected on a minuscule turnout.

Ministers may fear that local control of the police would lead to populist law enforcement. That is a danger, but two things mitigate it. For one, the existing criminal-justice system, led by a government in distress, is not exactly un-populist. (A recent Cabinet Office review recommended that those undergoing community punishments should wear fluorescent vests to shame them publicly.)

More importantly, the public is quite often ahead of the game. The level of street violence is one example; another is the public obsession with putting more bobbies on the beat, once ridiculed by criminologists but now all the rage in the form of "neighbourhood policing". If the public can be given more say, ideas such as these might surface a bit faster.

Youth unemployment

Labour's flawed record

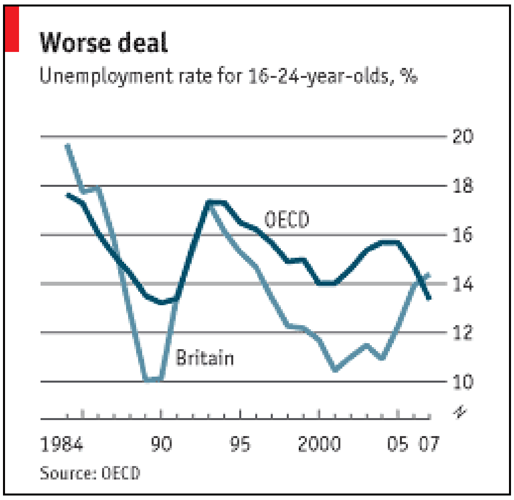
Jul 10th 2008
From The Economist print edition

Young people's difficulties in finding work are deep-rooted

AS THE economic outlook darkens, unemployment looks set to jump: several big homebuilders have announced sweeping job cuts over the past week. On previous form, young people will be hit particularly hard since they find it tougher to get and keep jobs when growth falters. This will cast a harsh light on the government's record in tackling youth unemployment.

Getting young people off benefits was one of Labour's five main pledges in the 1997 election that swept the party to power. The "New Deal" was set up to prevent youngsters from long stints of idleness. Any 18-24-year-old unemployed for six months or more had to join the programme, which directed them to jobs, training or some form of activity. But despite early apparent success, the New Deal's effectiveness was exaggerated. It was helped by a buoyant labour market; many young people would have found work in any case.

A decade later, Labour has little to boast about. Although fewer youngsters are unemployed for long stretches, the jobless rate for 16-24-year-olds is higher than in 1997, and it has risen above the rich-country average (see chart). Two main factors lie behind this poor performance, according to a report this week from the OECD.



First, the deterioration has been mainly among teenagers. The unemployment rate for 18-24-year-olds was the same in 2007 as in 1997, but for 16-17-year-olds it had risen from 17.7% to 23.4%. Second, today's workplace is unforgiving for the poorly educated. Only 45% of children leaving school without a qualification such as five good GCSEs in the exams taken at 16 have found work a year later.

In response, the government is planning to make all young people stay in education or training until they are 18, rather than letting them leave, as now, at 16. But this may only disguise the underlying problem, which is that many teenagers drop out whether or not they have left school. Alan Smithers, of Buckingham University, says that by the time students are in their final compulsory school year, just over a tenth are persistently absent. This is suspiciously close to the share of 16-18-year-olds who end up thereafter as "NEET"—not in employment, education or training.

Rather than forcing unwilling youngsters to stay in education, the priority should be to tackle the failings in both primary and secondary schools that allow so many to leave without even rudimentary qualifications. For those who fall through the net, work is a better remedy; and a job allied to training through good apprenticeships better still.

A planned revamp of the New Deal next year may help. The programme's performance has deteriorated, says Glenda Quintini, author of the OECD report. Fewer of the leavers are getting jobs and more of the jobs are short-lived. The reform will concentrate more effort on the unskilled and seek to secure longer-lasting employment. Introduced in balmy conditions, the New Deal must now prove its worth in stormier weather.

Energy prices

Foot off the pedal

Jul 10th 2008
From The Economist print edition

Rising fuel costs begin to change behaviour

Illustration by Claudio Munoz

ONE of the most popular programmes on British television is “Top Gear”, a Sunday-night celebration of the motor car that owes its success to an irreverent mix of speed, stunts and smoking tyres. But viewers of the first instalment in the show’s new series, broadcast in June, had a slightly different experience. Following a race designed to find the most fuel-efficient supercar, Jeremy Clarkson, one of the hosts, gave a short soliloquy on how motorists could cut their fuel bills by changing their style of driving. Visitors to Mr Clarkson’s blog can find a list of uncharacteristically worthy fuel-economy tips, which include avoiding aggressive acceleration and braking, switching off unnecessary gadgets and even driving more slowly.

This sensible advice from the nation’s petrolhead-in-chief is only one piece of evidence that high oil prices are beginning to alter consumer behaviour. The AA, a motorists’ club, reports that fuel prices rose at their fastest-ever rate last month (by 5.6p per litre for petrol and by 7.4p for diesel). Garages report drops in fuel sales of 5-10%, and say that buying patterns have changed as consumers use their second cars less. Government officials maintain that motorists are driving more slowly, and that high fuel prices are reducing congestion in clogged city centres.

Nor is it only motorists who are being squeezed. The rail industry thinks travellers are beginning to abandon their pricey cars for public transport, but public transport is having to economise as well. FirstGroup, which runs bus and train services across the country, is encouraging frugality by suggesting that its drivers let trains coast downhill and forbidding bus drivers from idling their engines. Ferry services to Ireland are sailing more slowly, and even airlines have been trimming speeds. Pricey petrol is affecting shopping habits, too, as consumers avoid long trips to out-of-town retail parks. Data from Footfall, a firm that tracks customer numbers, shows that visits to out-of-town shops have fallen by 7.4% since May, compared with a drop of only 3.6% in visits to town centres.

More worrying for the government are the political consequences. Expensive oil will swell the Treasury’s coffers with a combination of petrol-tax receipts and revenue from North Sea production (see article), a welcome boost for a government in a fiscal tight spot. But it also reminds drivers that much of the pump price is accounted for by fuel duty. Petrol duty is 50.35p per litre, and that on diesel is 56.94p, making British diesel among the most expensive in Europe. A combination of angry motorists and disgruntled hauliers, who have been hinting at a re-run of the strikes that paralysed the country in 2000, mean that a 2p rise in fuel tax planned for October will probably be abandoned. The Conservatives have proposed letting taxes vary with oil prices to ensure that motorists always pay the same amount—an appealing piece of populism from the party that concocted the policy which has brought fuel taxes to their current level.

The ultimate impact of such changes depends on how long oil prices remain at their current eye-watering levels. Stephen Glaister, an economist at Imperial College, London and the director of the RAC Foundation, a motoring lobby-group, points out that demand for both motoring and fuel is reasonably elastic in the long term. A sustained period of high prices could lead to significant changes in behaviour.

That, in turn, could affect a whole slew of government planning decisions, from predictions of tax revenues to subsidies for renewable energy and investment in airports, roads and railways. The case for expanding Heathrow, for example, set out in the aviation white paper in 2003, relied in part on official forecasts that oil would cost $25 a barrel in 2000 prices ($31 in today's). Predicting the oil price is a fool's game (oil was falling again as *The Economist* went to press), but even the most diehard oilmen think a return to such cheap fuel is unlikely. With airlines' fuel surcharges boosting ticket prices and slowing the growth in demand, those opposed to a bigger Heathrow are rightly urging a re-think.

North Sea production

Ebbing

Jul 10th 2008
From The Economist print edition

Record oil prices fail to halt the North Sea's decline

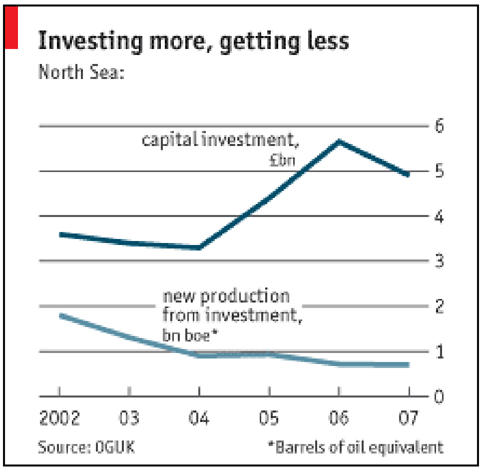
WHENEVER he is asked about the viability of an independent Scotland, Alex Salmond, the leader of the Scottish National Party, points to the hydrocarbons pumped from beneath Britain's part of the North Sea. Most of the deposits lie in what would be Scottish waters, argues Mr Salmond, meaning that petropounds could replace much of the subsidy that Scotland currently receives from England.

That may be true today, but it is unlikely to remain so for much longer. Once the world's sixth-biggest producer of oil and gas, Britain has seen production drop by around 40% since its peak of 4.5m barrels a day in 1999. On July 8th Oil & Gas UK (OGUK), the offshore industry's trade association, released its annual report. Record oil prices mean a massive windfall for the taxman—forecast at around £15 billion, roughly double the tax take last year—but have conspicuously failed to halt the slide in production, which fell from 2.9m barrels per day in 2006 to 2.8m in 2007.

The problem is not that there is no oil left—the government reckons that 16 billion-25 billion barrels remain beneath the ocean floor—but that it is becoming harder to extract. Almost all of the North Sea's big fields have been tapped, and most of the new discoveries contain less than 50m barrels, making them tiddlers by international standards. And many are geologically difficult, with their hydrocarbons stored at high pressures and temperatures. This makes them difficult to develop.

As the North Sea becomes tougher to exploit, the bigger oil firms are abandoning it for more productive pastures elsewhere. On the day that OGUK launched its report, Shell and Exxon said they were selling several fields to Taqa, an energy firm from Abu Dhabi. In theory, this will help to extend the basin's productive life, as small, nimble companies extract reserves that are too little to interest the majors.

But the rising price of oil has pushed up operating costs too. Skilled labour is in short supply, and the price of renting drilling rigs has more than doubled since 2006 (although it seems to have levelled off now). Capital investment in the North Sea fell to £4.9 billion last year, an especially worrying trend given that, thanks to higher costs and smaller finds, a pound of investment generates around a third as much oil today as it did in 2002 (see chart).



Not all hope is lost, and oilmen list three possibilities for boosting production. Besides using high-tech drilling to recover more oil from existing wells and making smaller fields cheaper to develop, they are keen to see more activity west of the Shetland islands. This relatively unexplored frontier is thought to contain around four billion barrels of oil and gas (and that figure could increase if significant prospecting is done), but development is hamstrung by a lack of pipelines to carry oil and gas to shore. Ministers are negotiating with a group of oil firms with interests in the area, including Total and Chevron, in an effort to get one built.

In practice, that could mean granting tax relief on capital investment, something that Malcolm Webb, OGUK's boss, sees as essential to slowing the North Sea's decline. That puts Gordon Brown in a tricky position. In May, propelled by record-breaking oil prices and public discontent, the prime minister made a conspicuous visit to Aberdeen to discuss what could be done to boost production. But giving tax breaks to oil companies at a time of record industry profits and rising fuel bills could be politically tricky, to put it mildly.

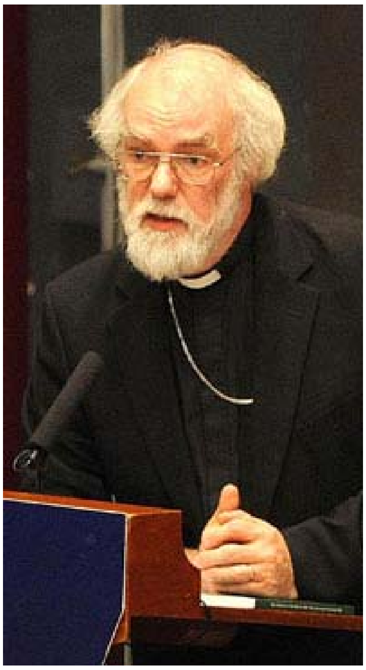
Church of England

When compromise fails

Jul 10th 2008
From The Economist print edition

Anglicans' inability to solve their domestic problems bodes ill for the worldwide gathering later this month

PA


Canterbury's cares

WHAT makes a group (of voters, relatives, believers) stick together, even when its membership is varied and quarrelsome? Sometimes deference to a common authority; sometimes fear of adversaries; sometimes common axioms that trump any differences; and sometimes a sentimental "family feeling" that makes people tolerant of eccentricity or even obnoxious behaviour. If none of those factors is present, then break-up looms.

The Church of England may be approaching that point. Matters came to a head at the session this week of its ruling General Synod, which saw more than its share of tears, jeers and cheers. The topic under discussion—or so it was reported— was whether women, who have served as priests since 1994, could also be bishops.

Actually, that was not precisely the matter at issue; the idea of women bishops had been accepted in 2005, and nobody suggested that this decision was reversible. The furore was over what accommodation, if any, should be made for the minority of the faithful who disagree with the idea of women bishops (and, in most cases, with the idea of women priests). Of these, some say that administering the sacraments (to put it simply, rites in which God's grace is mysteriously invoked) is a male-only prerogative; others take literally the teaching of Saint Paul that authority in the church is best handled by men.

When women began to be ordained over a decade ago, conservative parishes were given an elaborate opt-out: instead of labouring under the episcopal oversight of a liberal, pro-female-ordination type, they could choose to be in the care of a so-called "flying bishop" who would never foist a female vicar on them. Their dilemma will get sharper with the advent of bishops who are not just the woman-ordaining kind, but actually women.

Liberals want the opt-out provisions watered down, pointing out—with perfect logic—that a state church, whose prelates sit in the upper house of Parliament, cannot discriminate by sex without breaking mainstream social norms and even the law. (In this light, Anglicanism's official privileges look attractive to progressives.)

Ranged against the liberals-for-theocracy are what might be called the "conservatives for minority rights". The old-timers ask that the opt-out clause be entrenched and perhaps extended. And they want it accepted that to object in conscience to women bishops is a tenable position.

In the centre of the debate is a big group who favour women bishops but want the traditionalists treated decently. As it turned out, the liberals were disinclined to put family unity before their own principles; a compromise resolution reflecting the middle ground failed by a narrow margin. No wonder emotions were mixed. "I am overjoyed that there are going to be women bishops, but deeply concerned for those who feel un-churched by this decision," said Peter Broadbent, who is in charge of the church in part of north London.

Reason enough for concern, but for Rowan Williams, the Archbishop of Canterbury, there may be still more ominous implications. If the old Anglican way of "patching-over-the-cracks" is vanishing from the mother church, what chance does he have of healing the deeply divided worldwide Anglican Communion, which comes together at Lambeth for its once-a-decade meeting on July 16th?

Bagehot

Clegg, over?

Jul 10th 2008
From The Economist print edition

The strange magnetism of the Liberal Democrats' leader

Illustration by Steve O'Brien

THERE are some good reasons why Labour may stand by Gordon Brown, even if it loses the latest crucial by-election, in Glasgow on July 24th. But one argument advanced by those who think Mr Brown will escape a putsch is mistaken. It is that, amid the economic gloom and catastrophic polls, no one else would want his job. That misunderstands the political psyche. Many top politicians are propelled by iron self-belief and lust for glory. The prospect of a portrait on the Downing Street stairs, of a monument more lasting than bronze—plus a hunch that they are talented enough to turn disaster into triumph—will be enough for some of them to go for it should the regicidal crisis come.

Which brings Bagehot to Nick Clegg, leader since December of the Liberal Democrats, Britain's third party. For a politician, he is unusually normal and nice—too nice, almost, for the serpentine machinations of Westminster. He made his biggest splash so far by offering an impressive if vague answer to a journalist's question about the number of notches on his bedpost, earning the sobriquet "Cleggover". A cynic might have concluded that he was courting scandal: an earlier House of Commons walkout by Lib Dem MPs, and Mr Clegg's avowal that he would sooner go to jail than carry an ID card, had suggested a taste for stunts. But he was probably being naively obliging. He is personable and polyglot (his mother is Dutch and his wife Spanish, which helps to explain his devout Europhilia). With no real prospect of power, some may wonder why he puts up with the indignities and stress.

In fact Mr Clegg has been quietly getting on with a task that may one day justify the hassle: turning the Liberal Democrats into a party that is authentically liberal in more than name. Risking the disapproval of the lefties who make up much of the membership, he has developed a firm critique of Labour's intrusive statism. His version of the state sets rules, ensures a level playing field and disburses funds, but gives schools more freedom and the users of health services more control of their budgets.

These are good ideas—so good that the other parties share many of them. The Tories, for example, echo the Lib Dems' attacks on Labour's erosion of civil liberties. But Mr Clegg's prospectus is shaping up to be the most ideologically consistent, and perhaps the boldest, not least in terms of tax. "If you became prime minister," a pupil asked him earlier this year, on a visit to a school in Hull, a run-down northern town that the Lib Dems now govern, "what would you do first? Spend all the money?" On the contrary: Mr Clegg is now talking about cutting taxes, at least for poorer families, rather than taking and spending more. He wants to slash the basic rate of income tax and introduce a local version, ending local councils' emasculating reliance on central funding.

So Mr Clegg is on his way to having an answer to one of the questions routinely asked about his party: what's the point of the Lib Dems? That leaves another cruel inquiry: what's the point of the Lib Dems having a point? Yet there are now two plausible scenarios in which Mr Clegg might get to make it.

In one of them, the cavernous hole Labour is in gets even deeper. Mr Brown's unpopularity replaces the Lib Dems' opposition to the Iraq war as their main recruiting tool. At the next election, people vote tactically to get the government out, as they once did against the Tories. The Lib Dems pick up seats from Labour, while defending the most marginal of their 63 current ones from the Tories. The class-based allegiances that once bound voters to their two big rivals weaken; the Lib Dem issues of liberty and localism become the new axes of politics; and, after another election or two, Mr Clegg shatters the Westminster duopoly.

That may be a little optimistic. Unfortunately for Mr Clegg, David Cameron and his subtle suasions seem able to attract voters who would once have balked at supporting the Tories, however disenchanted they were with Labour: witness the Crewe by-election in May, when the Lib-Dem vote declined and the Tory share rocketed. But in the second of the encouraging scenarios, losing a few MPs to the Tory tide wouldn't matter.

In this one, Labour recovers (still conceivable, however unlikely it may now seem), enough to hang the next parliament. Mr Clegg is understandably reluctant to discuss what he might do, should his MPs hold the balance of power; but he would very likely do nothing, at least in terms of a formal coalition (a much-discussed but almost mythical arrangement). Propping up a rump Labour administration would look undemocratic; it is doubtful whether either Labour or the Tories would satisfy what would be his main demand, namely a proportional voting system to reflect more fairly the Lib Dem share of the vote.

Mr Clegg might, however, be able to secure some of his policy goals in a loose parliamentary pact with the Tories. Education reform, over which two parties largely agree, is an obvious area for collaboration: it would give both something to brag about in the fresh election that might follow in short order. Mr Cameron is now so rampant as to make the idea of his relying on such an arrangement seem fanciful. But it is a contingency that cautious senior Tories have considered. That in turn raises the possibility that, should Labour's fortunes rise, Mr Clegg may be able to exert a sort of magnetic influence on Tory policymaking before an election, to pave the way for co-operation after it.

Aren't you that nice Mr Cameron?

The layout of the House of Commons is symbolic of the plight the Lib Dems face in Britain's antagonistic system of politics. At prime minister's questions, Mr Brown and Mr Cameron confront each other across the useful props of their dispatch boxes. Mr Clegg stands vulnerably in the aisle in front of his MPs, while the occupants of the Labour and Tory benches yell at him mercilessly ("get your kit off", some of them enjoined after the "Clegg-over" debacle). Mr Clegg bears it stoically; it is just possible that his efforts will be rewarded, in influence if not in power.

The G8 summit in Hokkaido

They came, they jawed, they failed to conquer

Jul 10th 2008 | HOKKAIDO
From The Economist print edition

AP

A mountain-top gabfest provided a spectacular show and a long guest list but few answers to the woes of the world

AS DILIGENT hosts, the Japanese made sure this year's G8 summit, grouping the leaders of the biggest industrial economies plus Russia, saw little of the angry protest that has marred so many similar gatherings. It all happened at a remote highland resort at Toyako on Hokkaido, Japan's northernmost island. Many foreign activists were turned away at the border, and such demonstrations as did take place were kept to distant cities where riot police outnumbered malcontents. Even the media horde and those non-government organisations (NGOs) deemed semi-respectable were interned in a holiday camp about 20 miles from the eight great leaders.

To Yasuo Fukuda, Japan's prime minister, whose domestic standing is extremely shaky, the summit's smooth passage was a huge relief. He even showed a flash of statesmanship. In answer to perennial criticism that the G8, a self-appointed steering group for global problems, was hardly representative of the world, he invited seven national leaders from Africa to join Japan, the United States, Canada, Britain, France, Germany, Italy and Russia to discuss the continent's development.

At another point, Russia's Dmitry Medvedev found himself hobnobbing not only with the old-time capitalist club but also with fellow leaders (see picture) of the BRIC gang of fast-growing giants—in other words, his counterparts from Brazil, India and China. By inviting that lot, plus Mexico, South Africa, Indonesia, South Korea and Australia, the Japanese were able to bring together the bulk of the world's greenhouse-gas emitters. This was easily the G8's biggest "outreach" to date, and Mr Fukuda skilfully ensured that disagreements among that disparate bunch did not break out angrily into the open. Carry on like that, people at the summit quipped, and the 71-year-old leader might one day make a competent foreign minister.

On substance, however, the summit was a let-down. A year ago, when the Heiligendamm summit took place in Germany, oil and food staples were at half their prices today, while Northern Rock was an unknown little bank. At the Toyako summit the G8 leaders rose to the challenges posed by the "three Fs"—food, fuel and the financial credit crunch—with platitudes, and little effort was made to resolve the contradiction between calls for larger oil supplies and the promise of a low-carbon future.

On Africa, higher food prices seemed to make a mockery of G8 pledges made three years ago to raise annual aid levels by $25 billion until 2010, even before NGOs warned that the commitment was already

slipping. (Here, though, Japan can hold its head higher: in May it hosted a big African aid gathering, promising substantially to increase aid and technology transfer.)

The big disappointment was over climate change—despite some word games. Last year, Germany's chancellor, Angela Merkel, overcame the reluctance of George Bush and got the G8 to promise to "consider seriously" cutting greenhouse emissions by at least half by 2050. This time the G8 vowed to "consider and adopt" such cuts. Ms Merkel hailed this tighter language; the hosts called it the summit's biggest victory, coming just 18 months before 180 countries meet in Copenhagen to hammer out a successor to the Kyoto protocol. In effect, Mr Bush has at last committed America to a quantifiable target. With just 200-odd days of his presidency to run, this may be his final input to the climate-change debate; some would call it his only contribution.

Yet the strength of the G8's commitment starts to crumble under scrutiny—even without one cynical Russian diplomat pointing out how absurd it is for today's politicians to take responsibility for meeting goals four decades from now. The baseline from which the cuts are supposed to occur has been left vague. The European Union wants them to begin from 1990, while Japan (which unilaterally says it will aim for a 60-80% cut in emissions) thinks it more realistic to start from 2005 or perhaps this year. America hardly has an opinion.

To some, this obsession with distant targets is beside the point. The G8 could not come up even with nearer-term goals to cut emissions—say, by 2020. The lack of more immediate and concrete measures, says Michael Grubb of the Carbon Trust, set up by the British government to reduce reliance on fossil fuels, underscores an "abdication of responsibility". At the least, he says, the G8 leaders could have promised to treat cuts eventually agreed under UN auspices as legally binding. And they could have moved to bring the huge, dirty market in bunker fuel for shipping and aviation, hitherto excluded from discussion of caps, into the negotiations.

Without such marks of resolve, it is little wonder that the five biggest developing polluters, which account for a smallish amount of the man-made carbon dioxide now clogging the air but a fast increasing share of new emissions, refused to make any firm pledges. A Japanese diplomat worries that the relationship between the G8 and the so-called G5 (India, China, Brazil, Mexico and South Africa) over climate change may soon resemble management-and-labour stand-offs at their worst.

Perhaps such weakness was inevitable. Big challenges demand strong leaders. But if Mr Fukuda is weak domestically, Mr Brown looks little better. Mr Bush is a lame, unpopular duck. Nicolas Sarkozy of France struggles to comprehend how and why his voters' enthusiasm has evaporated. In all the big democracies (as well as elsewhere) the three Fs have played their part in creating a mood of dissatisfaction. Leaders find themselves punished, and also hobbled, by the low regard in which they are held by their voters.

Economist.com WORLD INTERNATIONAL

Population control

The marathon's not over

Jul 10th 2008 | NEW YORK
From The Economist print edition

In some parts of the world, family planning is still a distant dream

THREE decades ago, many pundits were saying that an ever-rising population could lead to global disaster. They argued that ecological catastrophe, resource wars and other tragedies were inevitable unless radical measures were taken to defuse the coming "population bomb". Happily, a mixture of technological innovation, economic dynamism and successful population-control strategies have helped defuse that bomb, or at least delay its detonation.

As the United Nations commemorated World Population Day this week, there was reason for cheer. Population experts have been busy revising their long-term scenarios downward to account for falling fertility not only in wealthy Europe and Japan but also in poor countries like Bangladesh and Kenya. Stan Bernstein of the UN Population Fund (UNFPA) even insists that "this is one of the great development success stories of the last 40 to 50 years," pointing out that the active use of family-planning techniques in developing countries has shot up from 10% to 12% in the early 1960s to over 60% today.

That is impressive, but there is a second, less happy population story. Even as the world in general has been getting a grip on the population problem, things still look bleak for the poorest people in the world. Mona Byrkit of CARE, a charity, calls this the "huge unfinished business" of the population-control movement.

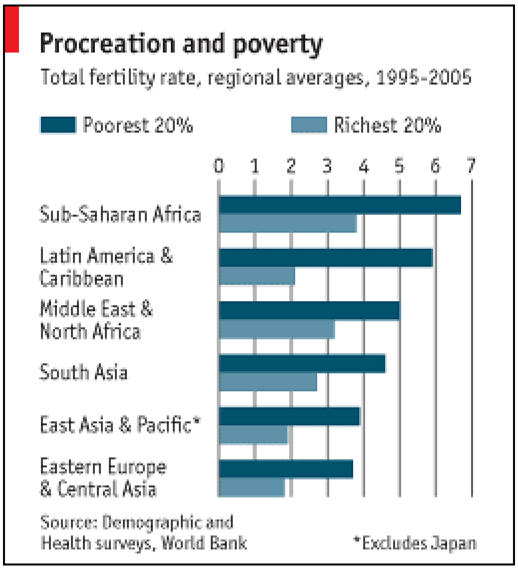
In a report released this week, experts at the World Bank show that 35 countries (31 of them in sub-Saharan Africa) are lagging badly, with sky-high fertility rates and limited access to family-planning tools. In contrast with the relative success that many post-Soviet countries have had in increasing access to contraceptives, the agency's investigators have shown how African women are too often forced to turn to poorly executed abortion as "contraception of last resort"—sometimes with fatal results (see chart above).

What particularly troubles Sadia Chowdhury, one of the report's authors, is what the agency calls "unmet need for contraception": the difference between how many children a woman in, say, an African village wants to have and the number she actually ends up bearing. Even allowing for all cultural and economic factors that might prompt such women to produce more children than their sisters in wealthy countries, there seems to be a huge gap (see chart below).

Why does this happen? Money is not the main reason. In most developing countries, contraception is in theory available to the indigent either free or at nominal cost through state agencies. The trouble is that these bureaucracies are often inefficient, understaffed and incapable of working properly in rural areas.

Politics clearly plays a role. One factor, says CARE's Ms Byrkit, is the social conservatism of the Bush administration, which makes it hard for those receiving American funding (for HIV/AIDS, for example) even to work with charities providing abortion counselling. Another problem is flagging political momentum. The very success of many parts of the world in limiting population has sapped donors' enthusiasm. The UNFPA's Mr Bernstein likens this to the first finishers of a marathon declaring the race over before the rest of the runners cross the finish line.

If bad politics leads to terrible results, the reverse may also hold good. Ms Chowdhury points to the success of her native Bangladesh; she says political will and female empowerment can make all the difference even in a poor country. And there are some other positive signs on the political front. The UN has recently, and not before time, decided that population control should be one of its much-vaunted Millennium Development Goals.



Economist.com WORLD INTERNATIONAL

Political immunity

Pulling back the blanket

Jul 10th 2008
From The Economist print edition

The rules that protected world leaders from prosecution are being rewritten

“THERE is no longer any doubt as to whether the current [Bush] administration has committed war crimes,” Antonio Taguba, a retired American general who conducted the first investigation into prisoner abuse at Abu Ghraib, declares in a new report on the maltreatment of detainees: “The only question that remains is…whether those who ordered the use of torture will be held to account.”

AP

Charles Taylor: a high-flying tyrant comes down to earth

As George Bush’s presidency draws to a close, many others in his administration, including Mr Bush himself, may be asking the same. Like all heads of state and government, along with many of their senior officials, the American president enjoys wide immunity from both criminal prosecution and civil lawsuits, at home and abroad, while he remains in office. But once he goes, so does much of his protection. And though nobody expects Mr Bush to face legal problems at home, it is just possible that in some other country, a prosecutor (or a private citizen initiating a civil suit) will try to hold him to account for America’s record in Iraq and elsewhere.

Across the world, leaders are fretting about the judicial moves that might be in store for them, especially after they leave office. Italy’s newly re-elected prime minister, Silvio Berlusconi, is trying to rush an immunity bill through parliament to protect himself against any prosecution for financial misdeeds. Jacques Chirac, having managed to stave off prosecution while president, has now been charged in relation to a party-funding scandal during his term as mayor of Paris. And one reason why Zimbabwe’s President Robert Mugabe is clinging to power could be his fear of being hauled before the International Criminal Court (ICC) in The Hague.

Traditionally, government leaders have enjoyed two types of legal protection when abroad: functional immunity, shielding them for life from prosecution in the domestic courts of other countries for acts carried out as part of their official duties; and personal immunity, protecting them from prosecution in foreign courts for *all* acts while in office—“irrespective of their gravity”, as the International Court of Justice (ICJ) ruled in 2002—but only for as long as they stay in power.

But a growing school of thought is challenging the idea that important folk should be deemed “more equal than others” before the law. The argument that some crimes merit no immunity is almost a century old. Provision was made in the 1919 Versailles Treaty for the defeated German emperor to be tried for “a supreme offence against international morality”. In 1945 the Nuremberg tribunals likewise refused to absolve Nazi leaders of responsibility for war crimes and other atrocities.

But it was not until the past decade that leaders who once saw themselves as untouchable really began

to worry. The charters of the ICC and the various international ad hoc tribunals set up to try genocide, war crimes and crimes against humanity all explicitly rule out immunity for anyone. The emerging idea that high office can never provide an absolute defence for such crimes was reinforced by the House of Lords' ruling in 1999 that Augusto Pinochet, Chile's ex-dictator, could be prosecuted for torture. Some crimes were so heinous, the law lords said, that they could not be considered part of a head of state's official functions—though this is still disputed.

A few months later, Slobodan Milosevic, the Serbian despot, became the first serving head of state to be indicted for war crimes. Charles Taylor was the next. Indicted in 2003 while still president of Liberia, he is now on trial in The Hague. Several former heads of state have also found themselves in the dock on war-crimes charges. They include Iraq's Saddam Hussein, executed in 2006; Chad's Hissène Habré, facing trial before a special court in Senegal; and Khieu Samphan, former Khmer Rouge president, now awaiting trial by a UN-backed court in Cambodia.

A third serving head of state may soon be indicted. On July 14th the ICC's chief prosecutor, Luis Moreno-Ocampo, is due to announce plans to charge further Sudanese government officials over the continuing atrocities in Darfur. It is just possible that President Omar al-Bashir will be among them. He has refused to hand over Ahmad Harun, his minister for humanitarian affairs, indicted by the court a year ago.

But the ICC, set up under the 1998 Rome Statute, does not have unlimited jurisdiction. It can only prosecute international crimes involving at least one country that has signed up to the court. Although 106 countries have joined that list, America has not; nor has Zimbabwe. This means that Mr Mugabe could not be prosecuted by the ICC unless there was a referral to the court by the Security Council, as happened with Sudan, which is not a party either. It is not clear that recent events in Zimbabwe, however awful, amount to a "crime against humanity", defined by the ICC's statute as a "widespread or systematic attack" on civilians. But if the court did take up the case, Mr Mugabe would be equally vulnerable, in or out of office, given the lack of immunity for such crimes.

Theory and practice

There is no technical reason why the ICC should not try to go after Mr Bush, in the unlikely event that it found America was guilty of atrocities in Afghanistan (which is a party to the court, while Iraq is not.)

However, there is another way that the leaders of countries that have stayed out of the ICC could be prosecuted, despite their head-of-state immunity. That is by means of the principle known as universal jurisdiction. This allows states to prosecute international crimes such as genocide, torture and crimes against humanity in their own domestic courts, even when they have no link with the perpetrator, victims or site of the crime.

The scope of universal jurisdiction is disputed. Some say that the principle falls under treaty, not customary, law and is hence restricted in application to states that are party to the relevant treaty; so Britain could not bring action for torture under universal jurisdiction against Mr Mugabe, because Zimbabwe is not a party to the UN Convention Against Torture. Others say so many states have signed accords like the Geneva Conventions and the torture pact that they now amount to customary law.

The idea of "universal jurisdiction" is certainly gathering steam. It is already in use in at least eight European countries, with Spain, Belgium and Britain to the fore. Although the 2002 ICJ ruling on political immunity means that serving heads of state and senior government officials cannot be hauled before the domestic courts of other countries, this can happen after they leave office. Universal jurisdiction was invoked in Britain's Pinochet case. Mr Habré would probably not be on trial in Senegal if Belgium had not invoked the "universal" principle against him.

Human-rights groups in France and Germany have sought to bring proceedings under universal jurisdiction against Donald Rumsfeld, America's ex-defence secretary, citing atrocities in Iraq. Spanish prosecutors have invoked the principle to try pursuing several former Latin American dictators for crimes against humanity, though without success.

All this activity has encouraged countries to pursue miscreant ex-leaders in their own courts, where international immunity laws do not apply. Each country is free to determine what immunity, if any, it grants to its heads of state, government ministers and legislators. Its scope varies widely, as does the ease with which it can be lifted. But the past decade has seen a flurry of domestic prosecutions against past leaders, whether for human-rights abuses or financial crimes. In Uruguay, Suriname, Thailand, Peru

and Bangladesh, ex-heads of state or government are either in the dock or awaiting trial; meanwhile Israel's prime minister is under investigation (for fraud). The once-cosy blanket of immunity is starting to look rather threadbare.

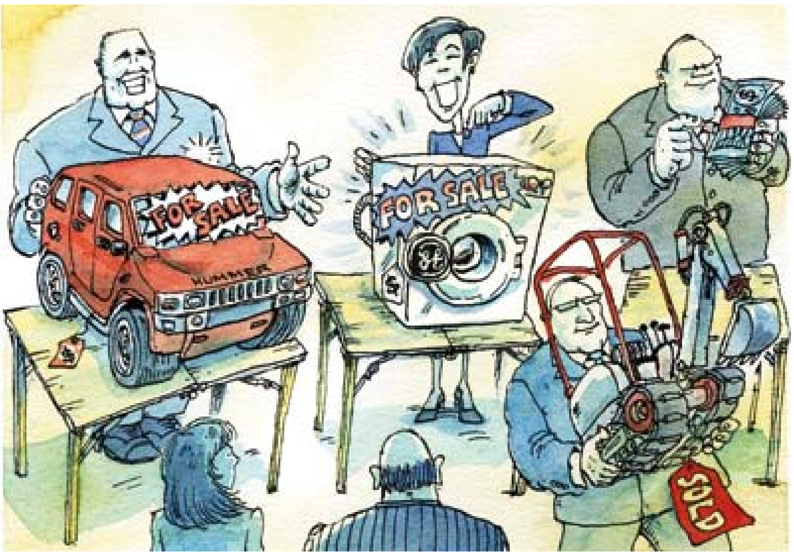
Corporate disposals

Breaking up is hard to do

Jul 10th 2008 | NEW YORK
From The Economist print edition

But there are big rewards for firms that get it right

Illustration by David Simonds



DECIDING to sell a business unit or subsidiary can be one of the hardest decisions chief executives have to make. Some cannot bring themselves to wield the axe: big disposals are often triggered only when a new boss takes over or a financial crisis forces a chief executive's hand. But a growing body of evidence suggests that smart sellers can earn impressive returns.

The number of such sales worldwide has been growing steadily, from 10,074 in 2003 to 12,361 last year, according to data from Thomson Reuters, a research firm (see chart). Over the same period the total value of such deals soared from $539 billion to almost $1.5 trillion, as the average deal size increased. In each of the past three years, several disposals have exceeded $10 billion in value.

This year is shaping up to be a busy one for divestitures too, even though the broader mergers-and-acquisitions market is in the doldrums. Slowing economies are forcing companies to take a hard look at their activities. Corporate activists are also pressing firms to shed underperforming assets. On July 10th General Electric (GE), which has been trying to find a buyer for its home-appliances division, said it plans to spin off its entire Consumer & Industrial division to shareholders. Other transactions in the pipeline include Time Warner's planned disposal of its cable-television business, Allianz's scheme to sell Dresdner Bank, and Royal Bank of Scotland's proposed sale of its insurance arm. General Motors (GM) is looking for a buyer for its Hummer brand, and this week Merrill Lynch was reported to be planning to sell all or part of its 20% stake in Bloomberg, a financial-news provider.

Most sales take place in rich countries, but emerging-market firms have begun to join in. In December 2007 Orascom Construction Industries (OCI), an Egyptian conglomerate, sold its cement business to France's Lafarge for €8.8 billion ($12.9 billion) in order to concentrate on its fast-growing construction, natural-gas and fertiliser activities (see article). In February the firm snapped up a rival fertiliser company using some of the money raised from the deal.

Although OCI sold its business outright, many emerging giants prefer spin-offs, which involve distributing shares in a subsidiary to the parent's owners or selling a minority stake to new investors. Take Bharti Airtel, an Indian telecoms giant, which last year spun off a $1 billion minority stake in its network-infrastructure business, Bharti Infratel, to a group of investment funds. Such deals highlight hidden gems in a portfolio, but allow parent companies to retain control. They also attract investors keen to buy into fast-growing industries: in February Kohlberg Kravis Roberts, a private-equity firm, invested a further $250m in Bharti Infratel.

Like many private-equity firms, which frequently shuffle their portfolios, companies that buy and sell a lot tend to shine too. Carsten Stendevad of Citi, an investment bank, notes that between 2002 and 2007 the returns of firms that used a balanced mix of acquisitions and disposals outperformed acquisition-focused companies by almost 5% a year.

Why? Part of the answer is that investors assume that active portfolio managers such as GE and Procter & Gamble (a consumer-goods giant which recently announced the $3 billion sale of its Folgers coffee business) are very focused on growth. They are also less likely to suffer from what academics call "capital allocation socialism". In many firms, some businesses have excellent growth prospects whereas others are mature but produce lots of cash. Ideally, money from these "cash cows" should be redeployed to the stars, but the cash cows' managers may fight to keep some of it for their empires. Several studies have shown that the investment in future stars rises sharply once laggards have been dumped.

This effect may help explain why a recent study of European asset sales by Morgan Stanley, another investment bank, found that firms selling large businesses tended to get a bigger share-price boost in the long run than those selling tiddlers. Investors seem to interpret a big asset sale as a signal that managers are serious about focusing on growth areas. If a company is in trouble, a big sale may be seen as an important part of a turnaround.

Of course, a firm will reap the benefits of a disposal only if it is handled well. Yet dealmakers say managers often put less effort into selling businesses than buying them, perhaps because they just want to focus on what's left. Successful sellers, however, work hard to get the best possible prices for their assets, even if it takes months. GE is excellent at this. Its chief executive, Jeff Immelt, has been jetting around the globe recently trying to drum up interest in its household-appliances arm from the likes of China's Haier and Sweden's Electrolux.

As well as touting a division to potential buyers, managers must also assess the impact its departure will have on shared corporate resources, such as finance and legal services. "Firms that don't do their homework carefully risk being left with lots of needless overhead," warns Gerald Adolph of Booz & Company, a consultancy.

Timing is everything

The biggest difficulty of all, however, is deciding when to sell. Many experts say that firms often let go of assets too late in a business cycle, when prices are depressed. GM is likely to have trouble parking its Hummer division, for example, having decided to look for a buyer just as giant, thirsty vehicles are going out of fashion because of soaring oil prices.

Although luck is an inevitable part of the timing of any deal, hard-headed firms are always on the lookout for signs that it makes sense to sell even their most precious assets. One company that has made such a call is Ingersoll Rand, a diversified industrial holding company. In November 2007 it agreed to sell its Bobcat mini-excavator business, plus a couple of other divisions, to Doosan Infracore, a South Korean firm, for $4.9 billion.

An Ingersoll Rand spokesman says Bobcat was beating the firm's margin targets. But it sold the business anyway because Bobcat's return on capital had been shrinking and because the high prices paid in auctions of similar assets had convinced Ingersoll's bosses that bidders would fall over one another to get their hands on Bobcat. Given what has happened to the construction industry since November, Ingersoll's timing looks especially good.

Chinese outbound investment

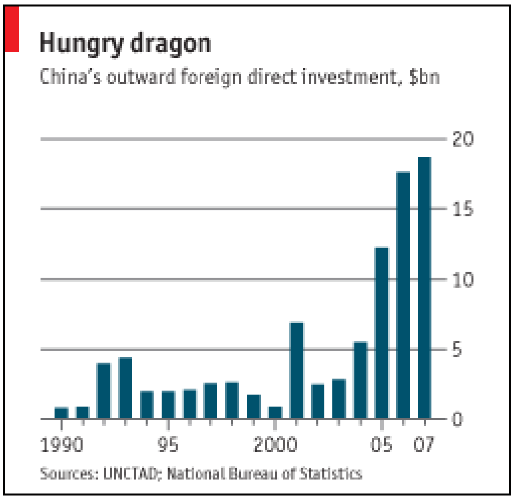
Dealing with sinophobia

Jul 10th 2008 | HONG KONG
From The Economist print edition

An oil deal highlights foreigners' wariness towards Chinese companies

AFTER 11 months of often painful negotiations, China Oilfield Services, a subsidiary of China National Offshore Oil Corp (CNOOC), finally announced on July 7th that it had agreed to buy Awilco, a publicly listed Norwegian oil-services company, for $2.5 billion. The importance of the deal lies not in the underlying business logic (both companies own oil rigs), the possible synergies (Awilco has deep-water experience China lacks, whereas China Oilfield Services has access to cheap funds) or even the price, which is modest in the grand scheme of things. It lies, instead, in the fact that the deal got done at all.

Chinese firms are in an odd situation. Their increasing wealth means they can afford to make acquisitions. But they are increasingly regarded as unpalatable buyers. Since 2005, when CNOOC was blocked by the American government from acquiring Unocal, an American oil firm, many of China's state-owned giants have been wary of bidding for Western firms. Instead, they have preferred to do deals in places like Africa, where asset sellers and the government work together (and often overlap), and high prices overcome objections, at least in the short term.



To deflect concern, Chinese government and business officials (who also often overlap) have also sought to team up with Western partners when bidding for foreign companies; a mirror image, in short, of the way deals are done in China. But the demise in March of Huawei's effort to acquire 3Com, an American technology firm, in the company of Bain Capital, a private-equity group, because of American concerns about technology transfer has discredited this strategy and reduced the perceived value of Western partners. Many similarly structured deals are in the works, but others have been dropped.

Yet another approach has been to make minority investments, in finance in particular. ICBC, a giant state-owned bank, bought 20% of South Africa's Standard Bank last year; Ping An Insurance has bought 4% of Fortis, and half its asset-management business. Various Chinese state investment funds have bought chunks of Blackstone, Morgan Stanley and Barclays. But these non-controlling stakes are messy, with little strategic value—and, when financial markets are falling, unprofitable.

Reservations about Chinese investment are particularly acute in Australia, which is packed with the raw materials Chinese industry craves. Sinosteel, a state-owned trading company based in Beijing, won permission in April to acquire Midwest, an Australian iron-ore company, but it may be a one-off; later applications have stalled. An estimated $40 billion of potential Chinese purchases are floating in and out of Australia's Foreign Investment Review Board, waiting for approval.

The reviews are supposed to be transparent: applicants submit requests and get a decision within 30 days. In fact, it is less clear-cut than that. The applications are private and the decisions are public. If a buyer gets wind of a rejection, it can withdraw its request and resubmit it again and again with no disclosure. Insiders reckon that dozens of applications are caught in this loop, and that informal diplomatic signals have been sent to discourage any more—at least for the time being.

If one company epitomises the concern of Australian regulators, it is CNOOC itself. Its core business of domestic oil exploration is closed to foreign competition, and it is part of a government-controlled domestic oligopoly that may violate Western countries' antitrust rules. Australia is also worried about CNOOC's vertical integration, fearing that it might place an artificially low value on the resources it extracts from Australia and thus deprive the government of tax revenues.

No doubt aware of these concerns, CNOOC and its subsidiary chose the Norwegian deal carefully. Much time and effort was spent shepherding it past China's regulators, and then ensuring it would not trigger howls in Oslo, where Awilco is listed, says Amy Lo, a lawyer at Clifford Chance who was part of the negotiations. It helped that Awilco was not a household name, so there were few headlines. Norway has not had any recent spats with China, and has plenty of oil of its own in the North Sea, so it was unlikely to kick up much of a fuss. But finding similar candidates will not be easy.

Brian Gu, head of the Greater China merger-advisory unit of JPMorgan, an investment bank, and an adviser to China Oilfield Services on the recent deal, says he has never been busier. In recent months he helped arrange acquisitions for WuXi PharmaTech and Mindray, both medical companies. It was surely no coincidence, however, that the targets were tiny and in highly competitive industries—so the deals failed to trouble regulators or xenophobes. For the time being, those may be the only sorts of deals that Chinese firms can do.

Management trends

The cult of the dabbawala

Jul 10th 2008
From The Economist print edition

Business-school gurus take lessons from an unexpected source

AS THE warrior king who defeated the Mughals and founded the Maratha empire of Western India in the 17th century, Shivaji Bhosle is remembered as a tactical genius as well as a benevolent ruler. The direct descendants of his Malva-caste soldiers are also developing a reputation for organisational excellence. Using an elaborate system of colour-coded boxes to convey over 170,000 meals to their destinations each day, the 5,000-strong *dabbawala* collective has built up an extraordinary reputation for the speed and accuracy of its deliveries. Word of their legendary efficiency and almost flawless logistics is now spreading through the rarefied world of management consulting. Impressed by the *dabbawalas'* "six-sigma" certified error rate—reportedly on the order of one mistake per 6m deliveries—management gurus and bosses are queuing up to find out how they do it.

The system the *dabbawalas* have developed over the years revolves around strong teamwork and strict time-management. At 9am every morning, home-made meals are picked up in special boxes, which are loaded onto trolleys and pushed to a railway station. They then make their way by train to an unloading station. The boxes are rearranged so that those going to similar destinations, indicated by a system of coloured lettering, end up on the same trolley. The meals are then delivered—99.9999% of the time, to the right address.

Harvard Business School has produced a case study of the *dabbawalas*, urging its students to learn from the organisation, which relies entirely on human endeavour and employs no technology. For Paul Goodman, a professor of organisational psychology at Carnegie Mellon University who has made a documentary on the *dabbawalas*, this is one of the critical aspects of their appeal to Western management thinkers. "Most of our modern business education is about analytic models, technology and efficient business practices," he says. The *dabbawalas,* by contrast, focus more on "human and social ingenuity", he says.

Firms, both Indian and foreign, are similarly curious. Tata, Coca-Cola and Daimler have all invited *dabbawalas* to explain their model to managers. Last month it was the turn of delegates at an accountancy conference in Dubai. There are even plans within the organisation to create a consulting business. The *dabbawalas*, who all receive the same pay, are also seen as paragons of "bottom up" social entrepreneurship. C.K. Prahalad, a professor at the University of Michigan's Ross School of Business, says they show how a home-grown business can help lift workers at the "bottom of the pyramid" out of poverty. They also contradict the stereotype of developing-world labourers as low-wage economic victims.

In Salman Rushdie's 1988 novel "The Satanic Verses", one of the main characters, Gibreel Farishta, worked as a *dabbawala* before going on to become a film star. The deliverymen no longer need a career change to get noticed.

Sweeteners

Top that

Jul 10th 2008 | NEW YORK
From The Economist print edition

The battle to replace sugar intensifies

THINGS have been stirring lately in the sugar business. This month Tate & Lyle, a European food giant known for Golden Syrup, its venerable brand of sugar syrup, sold its international sugar-trading arm; the move followed its disposal of its sugar businesses in the Americas. And US Sugar, America's largest sugarcane producer, may go out of business altogether and sell its land for $1.7 billion to the state of Florida, which plans to restore it to marshland.

Several forces are at work: growing concern about obesity, alarming scientific reports about artificial sweeteners and soaring agricultural prices. Sales of sugar and sweeteners, collectively worth about $4 billion in America alone, have hit a wall. According to Mintel, a market-research firm, sales of white sugar fell by 16% in real terms between 2002 and 2006. Sales of artificial sweeteners such as aspartame and saccharine, which had made successful inroads into the sugar market in recent years, are also in trouble.

For a while it seemed that health worries over natural sugar products, and especially high-fructose corn syrup, heralded a bright future for artificial sweeteners. Between 2002 and 2006 sales of sugar substitutes shot up by 22% in real terms in America. But a spate of scientific studies has raised doubts about artificial sweeteners. Some studies have linked the chemically derived sweeteners to cancer in laboratory rats, and others claimed that such sweeteners, by "tricking" the brain without satisfying the body's cravings for sweet treats, may actually promote overeating. Whatever the scientific merit of those studies, consumers are more wary of such products than they used to be.

Splenda, a sweetener produced by McNeil Nutritionals, a division of Johnson & Johnson, has done well by sidestepping both concerns over obesity and worries about "unnatural" sweeteners. Though it is made in the laboratory and is, technically, an artificial sweetener, the raw material is sugar molecules. McNeil duly marketed it under the slogan "Made from sugar, so it tastes like sugar", and Splenda became the leading artificial sweetener in America. But Merisant, a rival maker of artificial sweeteners, sued McNeil, alleging that the slogan was inaccurate. The case was settled out of court last year. McNeil has modified its marketing to make clear Splenda is "not sugar".

Another way to find a middle ground between natural sugar and artificial sweeteners is to blend the two, says Craig Petray, boss of NutraSweet, another sweetener company. In 2007 his firm established a joint venture with Domino Foods (the descendant of America's former sugar monopoly) and launched just such a blend, called Pure D'Lite. Blended sweeteners can taste better, and they are often cheaper than high-fructose corn syrup—especially since the recent spike in corn prices.

The latest entrant in the sweetener market was unveiled in New York on July 9th by Cargill, an American agribusiness giant. Truvía is a new zero-calorie sweetener developed in partnership with Coca-Cola, which has exclusive rights to its use in fizzy drinks. Cargill hopes the new product, which will launch nationwide in the autumn, will eventually top $200m in sales.

Truvía's clever twist is that it is derived from stevia, a bush found in South America and Asia. This means that it is neither sugar, nor a purely artificial sweetener, but is instead what Cargill calls a "natural" zero-calorie sweetener. (In fact, Truvía combines rebiana, a substance derived from stevia bushes, with erythritol, a kind of sugar alcohol found in fruits.) But caution may still be in order. The controversy around Splenda, says Marcelo Montero of Cargill, shows that "consumers are no fools." And NutraSweet's Mr Petray admits that "sugar is still the gold standard."

Telecoms in Mexico

Slim’s pickings

Jul 10th 2008 | MEXICO CITY
From The Economist print edition

More competition should help to drive down exorbitant phone charges

IT HAS become quaint, in the era of Skype and unlimited calling plans, to worry too much about the cost of phone calls. But it is a textbook case of the old saying: “Them as has, gets”. The well-connected executive can use any number of voice-over-internet services to make free calls; but the rural poor, if they have phones at all, must pay high rates. Perhaps nowhere is this more true than in Mexico, where Carlos Slim, by some estimates the world’s richest man, dominates the telecoms industry. He controls Telmex, which has 81% of the fixed-line market, and Telcel, which has 72% of the mobile market. In the first quarter of 2008 Telmex had a profit margin before interest, taxes, depreciation and amortisation of 48.7%; for Telcel the figure was 52.1%.

This is well above the global average for telecoms firms of 35%, says Martin Lara, an analyst at Vector Casa de Bolsa, a research firm. Base tariffs have fallen in Mexico in recent years, but they do not include things like international calls or calls to mobile phones. Competition has not helped much, because smaller firms have been reluctant to undercut Mr Slim’s companies by very much—and high prices boost their profits, too. “No one wants to destroy these profits overnight,” says Mr Lara.

There are signs that things are beginning to change—thanks to both technology and regulation. Cable-TV operators have started offering fixed-line telephone services in Mexico, as part of “triple-play” packages that also include broadband access. Competition is starting to bite, even though cable reaches only some 15% of Mexican households and the market is split among several small operators.

Fixed-line rivals to Telmex are also growing quickly. Axtel, based in the northern city of Monterrey, had almost 1m lines on March 31st, up 18% from a year earlier. Though with almost 18m lines, Telmex is much larger, in the same period it lost 2.7% of its lines. In the mobile market, meanwhile, which is growing much faster than the fixed-line market, Movistar, owned by Telefónica of Spain, has been outpacing Telcel. Movistar’s subscriber base grew by 42% in the year to March 31st, compared with 15% for Telcel’s.

Mr Lara says Mr Slim is letting his competitors grow to avoid regulation. Despite Telmex’s commanding market share, it is not judged a “market dominant” company by Mexico’s regulator, which allows it more freedom of action. Even now it is at a disadvantage in one respect: although cable operators are now allowed to offer voice services, Telmex cannot offer television services. A revision of its licence by the Secretariat of Communications and Transport would be needed first; rumours abound that this will happen soon, perhaps in return for concessions from Telmex, such as granting rival operators access to the copper wires that run into subscribers’ homes. (Mexico is the only country in the OECD where such “local loop unbundling” has yet to occur.)

On July 5th Mexican consumers won a small victory, with the start of number portability, which gives them the right to take their phone numbers with them when switching operators. Mexico is the first country in Latin America to introduce such a rule (Brazil will follow later this year). Hector Osuna, the head of Cofetel, Mexico’s telecoms regulator, says he expects 3-8% of consumers to switch providers.

Eduardo Pérez Motta, who heads the Federal Competition Commission, an antitrust regulator, says that portability is one of three conditions Telmex must meet before it is allowed to provide television services. The other two, he says, are sufficient interoperability and interconnection with competitors. (A small operator is at a disadvantage if a larger operator refuses to connect calls from one network to the other.) These are mandated by law, but in a pair of court cases in Guatemala and El Salvador, the incumbent operators (Telgua and CTE respectively), both subsidiaries of América Móvil (Telcel’s parent company, controlled by Mr Slim), were found to have been remiss in interconnecting lines with Grupo Americatel, a small operator owned by Tom Gordon, an American entrepreneur.

In Guatemala, Mr Gordon claims, Telgua disconnected 20% of Americatel’s capacity, and in El Salvador,

CTE did not fulfil contractual obligations to Americatel to improve interconnection. (Representatives of Telgua and CTE declined to comment.)

Cofetel, the Mexican regulator, has also recently ordered Telmex to improve its interconnection with rivals, after complaints from some cable operators. Such complaints, and the legal fights over interconnection elsewhere, will no doubt give the regulators pause as they consider whether to grant Telmex the right to move into television services. If interconnection is not sorted out, rival operators will not be able to provide competitive services—and Mexican consumers will pay higher prices.

German railways

Mixed signals

Jul 10th 2008 | BERLIN
From The Economist print edition

Deutsche Bahn is under attack from all sides. Privatisation will not help much

NAPOLEON would have made a great railway boss, claimed Hartmut Mehdorn, the chief executive of Deutsche Bahn (DB), in a recent interview. “The fact that he was short and fat like me is incidental,” he added. Mr Mehdorn has been notching up victories in his own quest for global domination—getting the go-ahead for a part-privatisation for instance—but there are continuous battles at local level.

VRR, a body responsible for local railway services in North-Rhine Westphalia last month tore up a contract with DB Regio, a DB subsidiary, complaining that it ran dirty trains, failed to provide agreed security guards and charged too much, thanks to a sweetheart deal arranged by politicians that is tantamount to a state subsidy. DB is still running the trains, pending mediation: tendering for a new operator is a long process. Next week a court in Lower Saxony will deliberate on the cancellation of another DB Regio contract, to run trains around Bremen.

The European Commission has its own suspicions about a contract in Berlin and Brandenburg, and opened formal investigations last October. There is a slight risk, played up by DB’s competitors, that a string of other local contracts which were negotiated, rather than publicly tendered, could be called into question too.

These are the hazards of being a state-owned incumbent that not only runs the mainline network, but also competes with hundreds of firms to provide local train services—which is by far the most profitable part of DB’s business, if a shrinking one. Veolia, a private train-operator, pulled out of bidding for a contract in Stuttgart in February, complaining that DB, which was also in the running, would not provide the information needed to prepare its bid.

Two railway watchdogs, the Eisenbahnbundesamt (EBA) and the Bundesnetzagentur (BNetzA), try to keep DB on the rails, by checking how it manages such conflicts of interest as it allocates routes, sets timetables and schedules repairs. How much does DB Netz, its network subsidiary, favour DB’s freight, local and long-distance subsidiaries? But the BNetzA, which started overseeing railways only in 2006, is understaffed and dogged by political interference, says Michael Holzhey of KCW, a consultancy.

A fight also looms with the European Commission over the separation of DB’s network and train services: the commission wants the computer systems to be separate too. Last month the Commission wrote to 24 of the European Union’s 27 member states, spelling out how each is infringing European railway directives and threatening proceedings. “The German list was much shorter than the ones for France or Italy,” sniffs a DB spokesman.

On balance that is right: Germany comes out well on railway liberalisation when compared with other European countries. Despite criticism of DB’s dominance, local German rail services are operated by 350 different companies. DB actually has a bigger share of freight traffic in Britain—through its subsidiary EWS—than it does in Germany. And the cost to the state is far lower than for France or Britain.

Will part-privatisation of DB, planned for November, make much difference? Only 24.9% of an operating subsidiary, DB Mobility & Logistics (DB ML), is being sold to investors, with proceeds estimated at €4.5 billion-6 billion. A third of that is expected to go to DB ML, a third to the state budget, and another third to improving infrastructure. But DB managers see it as a vital step away from political interference, even if the proceeds are puny. It will also enable DB ML to invest in foreign expansion—it is the fifth-biggest logistics operator worldwide, but with less than half the turnover of Deutsche Post and its subsidiaries DHL and Exel. SNCF, the French railway, has similar ambitions in logistics.

DB AG will remain 100% state-owned, as will its subsidiary DB Netz. In theory, the presence of private shareholders in DB ML should reduce its ability to win special treatment from DB Netz, though Mr Mehdorn will, bizarrely, continue to head both DB and DB ML. The privatisation represents a step towards the

British model, in which private firms run trains on a state-owned network. This requires the regulator to maintain the balance between profit-seeking and provision of a public service. DB managers reckon that Britain’s regulator favours shareholders over passengers.

It is not clear who, if anyone, will be interested in buying shares in DB ML. Given the poor performance of shares in other privatised firms, such as Deutsche Post and Deutsche Telekom, the German public may stay away. Mr Mehdorn seems likely to end up contending with institutional investors and hedge funds that want to shake things up. The last Napoleonic German boss in that situation, Werner Seifert at Deutsche Börse, ignored their demands and was forced out. Mr Mehdorn should be careful what he wishes for.

Airships

Are they coming back?

Jul 10th 2008
From The Economist print edition

Boeing

Their return has been predicted many times, but attempts to revive the idea of huge airships have never got off the ground. The latest effort may stand a better chance of success, however, since it has the backing of Boeing, America’s aviation giant. On July 8th Boeing announced a deal with SkyHook International, a privately owned Canadian firm, to develop what it calls a heavy-lift “rotorcraft”—a helium-filled airship with helicopter engines, 91 metres (300 feet) long and capable of carrying 40 tonnes. SkyHook will test the market by operating two such craft before any more are built. It reckons their ability to carry heavy loads up to 200 miles without refuelling will appeal to mining, logging and petrochemical firms, by offering a greener alternative to building roads through wilderness areas. It looks good on paper. But will it fly?

Face value

The only way is down

Jul 10th 2008
From The Economist print edition

The high priest of "peak oil" thinks world oil output can now only decline

Fifth Ring

FOR a man who believes that the world as we know it is coming to an end, as least as far as energy is concerned, Matthew Simmons is remarkably cheerful. He magnanimously excuses *The Economist*'s poor record of predicting the price of oil: our suggestion in 1999 that oil would remain dirt cheap was conventional wisdom at the time, he says soothingly. He also shrugs off our more recent scepticism about his belief that the world's production of oil has peaked: he, too, hopes that "peak oil" proves to be a myth, he says. But over a 40-year career in investment banking, Mr Simmons adds, he has learnt never to rely on wishful thinking. Most of the world's oil analysts, he believes, are far too optimistic about how long existing fields will last, the prospects for new discoveries, technology's ability to unlock new sources and to extend the life of existing ones, and so on. He prefers to rely on data rather than daydreams. And according to the American government's own numbers, the world's oil output has been more-or-less flat since 2005.

It was data that made Mr Simmons famous. He spent the summer of 2003 at his holiday home in Maine, poring over technical studies describing the state of Saudi Arabia's oilfields. Although the Saudi authorities do not release much evidence to support their claims of vast oil reserves, engineers from Saudi Aramco, the state-owned oil firm, do give talks at conferences and publish papers about their experience of reservoir modelling and management. Based on these, Mr Simmons concluded that Saudi Arabia's biggest fields were already past their peaks, required ever more expensive technological fixes to prop up production and would soon enter a period of inevitable and rapid decline.

Saudi grandees pooh-poohed Mr Simmons's 2005 book on the subject, "Twilight in the Desert: the Coming Saudi Oil Shock and the World Economy". But others held it up as convincing proof of the notion that the world's oil production would soon reach a pinnacle, never to be exceeded. Saudi Arabia, after all, is already the world's biggest producer, and is expected to cater to most of the growth in demand for oil over the next few years by expanding its output yet further. If, instead, it pumps less, there is little hope that other countries could make up the shortfall. In that scenario, as demand for oil continues to grow despite dwindling supplies, and as the search for substitutes proves fruitless, economic catastrophe ensues.

Mr Simmons helps to lend credence to this view in part because he is an old and respected hand in the oil business. He first stumbled into it in 1969, thanks to a chance encounter at a hotel in Palm Springs. He was two-thirds of the way through a doctorate in economics and had planned to join his father's bank in Utah when he finished. Instead, he ended up abandoning his studies to help raise venture capital for a pioneering firm of divers working on California's offshore oil-rigs.

Simmons & Company, the investment bank Mr Simmons went on to found (along with Michael Huffington, an oilman and politician), helped to funnel money and financial advice to the nascent "oil services" industry, which performs tasks such as seismic surveys and drilling wells on behalf of oil firms. Indeed, Mr Simmons says it was his bank that coined the very phrase "oil services". It has handled over 500 merger-and-acquisition deals in the industry—49 of them last year alone.

All this means that Mr Simmons can draw upon long experience and deep knowledge of the oil industry. He does not dispute the main criticism of the "peak oil" theory: that improvements in technology, spurred by high prices, will eventually allow new fields to be found, more oil to be recovered from existing fields and artificial oil to be conjured from substances such as tar sands, coal and shale. But he

thinks such advances will take longer to appear and have less of an impact than his detractors assume.

As it is, he points out, all the world's drilling rigs are working flat out, and old ones are being retired faster than new ones can be produced. The same is true of geologists and many more of the industry's essential inputs. This is slowing the development of new fields and pushing up the cost. By the same token, the technology being used to extract oil today has been in the works since the 1970s. It will take a long time for the next generation of clever kit to come into widespread use. Besides, many technological improvements seem to have simply speeded up the extraction of oil, rather than increasing the share of each reservoir that can be recovered.

Oil clocks out

In short, as Mr Simmons readily concedes, the debate between proponents and critics of "peak oil" boils down to an argument about timing. The optimists think that technology will advance quickly enough to offset declining production from mammoth fields such as those Mr Simmons studied in Saudi Arabia. But he and his disciples think the declines will come too soon, and be too sharp, for the world to adapt in time. The whole row could easily be solved, he says, if Saudi Arabia would only allow independent auditors to assess its reserves.

In the meantime, Mr Simmons is taking no chances. He plans to start up a farm near his house in Maine, in case the supply chain that provides America with food breaks down for lack of fuel. He plans to fertilise his fields with manure, rather than chemicals derived from oil and natural gas. He thinks globalisation must stop, and that as much trade as possible should be conducted by boat, to conserve whatever oil remains.

But Mr Simmons has not despaired. He holds out great hope for wave energy, and believes that at least one of the many different species of seaweed found along Maine's coast will yield oil that can be turned into biofuel. He has got Simmons & Company involved in alternative energy. It is a brave choice for someone who is so pessimistic about technology.

Economist.com WORLD ASIA

The illusion of calm in Tibet

Jul 10th 2008 | LONGWU
From The Economist print edition

After a botched response to bloody riots in Tibet in March, the Chinese authorities have ruthlessly restored order. But anti-Chinese resentment is deep-seated

VISITORS to Rongwo Monastery, a sprawling 700-year-old complex on the edge of the Tibetan plateau, might notice little untoward. There are no open signs of protest, of the sort that presaged vicious rioting in Tibet in March. But in one shrine a monk chants near a portrait of the Dalai Lama, prominently displayed despite the government's diatribes against the exiled spiritual leader. And police cars patrol the streets nearby: nervous, say residents, that protests could erupt anew.

Security around Rongwo, as it is known to Tibetans (its Chinese name, like that of the adjacent town, is Longwu), is far less visible than it was a few weeks ago when police surrounded the monastery, raided monks' quarters and took many away to jail. No police are to be seen inside the hillside monastery. But a monk says some 200 of his colleagues in the 500-strong community have been detained since Rongwo joined the wave of protests that swept the plateau. Many are still in custody, and, says the monk, it is "very tense". Near Rongwo is a much smaller monastery, which until recently was a popular destination for lovers of Tibetan religious artefacts, production of which creates hundreds of jobs in the area. It is now all but empty of visitors. A monk there says two of his colleagues have been seized by security officials.

As Beijing prepares to host the Olympic games in August, the authorities are trying, unconvincingly, to reassure the world that calm has returned to Tibet and ethnic-Tibetan parts of neighbouring provinces, such as Qinghai, to which Rongwo belongs, and much of which is considered by Tibetans part of their historical territory.

On June 21st the Olympic torch was paraded through the Tibetan capital, Lhasa, without incident but under huge security. Three days later the authorities announced that foreign tourists would be allowed back into Tibet for the first time since rioting erupted in Lhasa on March 14th. But they were supposed to join guided tours and stick to preset routes. On July 1st and 2nd Chinese officials held talks in Beijing with representatives of the Dalai Lama, the second such meeting since the riots. This time the Tibetans were treated to a tour of Olympic facilities in Beijing. But the talks got nowhere. The Dalai Lama's team agreed to

talk again in October but said that "in the absence of a serious and sincere commitment" on the Chinese side, it would "serve no purpose".

Despite China's promises of greater openness for the Olympics, foreign journalists still need special permission to visit Tibet. It is usually refused. About 50, none of them from *The Economist*, were invited to cover the torch parade in Lhasa, but were closely watched. Your correspondent reached Rongwo without hindrance, but was stopped twice at police checkpoints while leaving. Travellers say security is much tighter in Tibetan areas of Sichuan where several demonstrators were shot by security forces in March. In some monasteries police have seized computers and mobile telephones from monks to suppress news of the security operation.

Chinese officials want to win favour in the West by renewing talks with the Dalai Lama's aides. The Dalai Lama is a moderate: many Tibetans do not share his willingness to accept Chinese sovereignty in return for genuine autonomy. But some Chinese officials see him as the source of their Tibet problem. The Communist Party chief in Tibet, Zhang Qingli, used the torch ceremony to assert that Tibet could "thoroughly smash the separatist plots of the Dalai Lama clique". Even the usually tongue-tied International Olympic Committee expressed regret at the remark. Some government-controlled websites omitted it in reporting the speech. This could reflect differences over whether to seek a compromise with the Dalai Lama or to try even harder to erase his influence.

Chinese leaders must be relieved by America's announcement on July 3rd that George Bush will attend the opening ceremony of the Olympics. Relations with the West, though strained by recent events in Tibet, have not been critically damaged. France's president, Nicolas Sarkozy, had been the most outspoken of Western leaders in linking the clampdown in Tibet to a possible boycott of the games. But this week, after meeting China's president, Hu Jintao, at the G8 summit in Japan, he confirmed he would attend. Popular sympathy in the West for the Dalai Lama and Tibet is outweighed by the fear of antagonising China.

The leadership in Beijing, however, must also be asking itself whether the crisis in Tibet could have been avoided. As the dust settles, perhaps temporarily, it has become clearer that the unrest could have been far better handled. The rioting could have been stopped well before it engulfed the city, averting the deaths of the 20 or so ethnic-Han Chinese the government says were killed in fires set by the rioters. And had the unrest been more quickly contained, it might not have spawned sympathy protests across the plateau, even in monasteries such as Rongwo, some 1,200km (750 miles) from the Tibetan capital.

The security forces' response was highly unusual compared with their usual tactics for dealing with protests in Tibet and elsewhere in China. In 1993 the authorities quelled a riot in central Lhasa using tear-gas and plastic bullets. This time they kept well away from the rioting. Even if troops did shoot at people, it was not part of a concerted effort to stop the unrest.

Your correspondent, who happened to be the only foreign journalist in Lhasa at the time, reported in March that the rioting began to spread along the city's main thoroughfare, Beijing Road, in the early afternoon, "a short while" after a clash between monks and security officials outside Ramoche temple some 200 metres up a side street. But in fact the eruption of citywide rioting was slower than this suggested. Witnesses speak of the unrest outside Ramoche temple starting before 11.30am, well before your correspondent arrived at Beijing Road around 1.30pm and saw the rioting fan out through the narrow alleys of Lhasa's old Tibetan quarter.

Until just before then the unrest, including some stone-throwing by Tibetans at police, was confined to a small area. Oddly, however, your correspondent was nearby in a government car at around 12.30pm and saw no sign of beefed-up security. Foreign tourists say three lorryloads of paramilitary troops arrived at around 1.15pm. They crouched behind shields at the junction of Beijing Road and the Ramoche temple side-street. But the troops scattered within a few minutes after being bombarded with stones. Some of them abandoned their shields. Photographs show that several of the security personnel, although carrying shields and wearing helmets, were in civilian clothes. They did not look ready to defend themselves against rioters, let alone to try to stop them.

Why not read the riot act?

There are a number of possible explanations for this half-hearted response to such a big incident. It may have been simple bungling by a security apparatus overstretched by an outbreak of large-scale protests earlier in the week outside big monasteries on the edge of the city. Or perhaps official decision-making was paralysed by differences over what to do, and hindered by the absence of Mr Zhang, the party chief, who was in Beijing at the time.

The slow and cackhanded reaction is puzzling nonetheless. China, after all, faces tens of thousands of protests and riots every year, most swiftly contained. This month in Guizhou province, some 30,000 people protested in Weng'an county at the authorities' handling of the death of a girl they believed raped and murdered. It turned into an ugly riot. But those involved were soon detained. There was also a purge of the local political leadership, blamed for losing public confidence.

The security forces and political apparatus had long been nervous in Tibet especially. Indeed they had been gearing themselves for just such an outbreak of violence. The government's public claims that Tibet was stable were disingenuous, as was their dismissal of past unrest as ancient history. A series of anti-Chinese protests from 1987 to 1989 culminated in the imposition of martial law in Lhasa for more than a year.

Since then, officials, not least the hardliner Mr Zhang, who was appointed in 2005, have never let down their guard. In 2006 the security forces, fearing attacks by Tibetan terrorists (not that any are known to be active), staged what the government described as the biggest protection operation in the region's history. The occasion was the grand opening of Tibet's first rail link with the rest of China. Official records say this involved a series of exercises for dealing with terrorist and other "sudden incidents" (ie, riots), heightened surveillance of monasteries and the deployment of thousands of paramilitary troops along the railway line. In October last year police and paramilitary officers in Lhasa rehearsed rapid-response measures to cope with possible disturbances during the national-day holiday and the Communist Party's congress in Beijing.

In 2006 officials responsible for religious and ethnic affairs in Tibet circulated a secret document predicting that the train link could create instability in urban areas. Sure enough, ethnic-Han Chinese, many of them

recent migrants hoping to profit from a train-related tourism boom, were the main targets of the violence in Lhasa.

Even if officials had ignored such warnings, the protests at Lhasa's monasteries on March 10th and 11th were the biggest in the city since 1989 and provided ample warning of bigger trouble ahead. And Tibetan radicals outside China—not including the Dalai Lama, who supports the Beijing games—had made no secret of their plans to use the Olympics to publicise their grievances. On March 13th, the eve of the riots, security in central Lhasa was visibly tighter than normal in the city, which is ringed by military encampments. That day one of the Dalai Lama's representatives sent a letter to a senior official in Beijing, warning him that unless managed carefully the situation in Tibet might become "difficult for all of us to handle".

Yet by 1.30pm on March 14th, as the riots began to spread beyond the area near the Ramoche Temple, the security presence had all but disappeared from that part of the city. Once the riots began to spread, officials may have worried that any effort to control them would lead to bloodshed that would damage China's image in the build-up to the games. But it is also possible that some officials actually wanted the violence to escalate, as a pretext to impose blanket security on the city long before the Olympics. They might have calculated that tensions in Lhasa were likely to present a growing security headache in the run-up to the games, and that foreign scrutiny would become more intense. By refraining from an immediate bloody crackdown they might even gain international kudos for avoiding a Tiananmen-style response. Chinese officials may have been genuinely surprised that, in the event, Western reaction was overwhelmingly negative.

This response was fuelled by a widespread perception outside China, encouraged by reports from Tibetans in exile, that large-scale bloodshed had indeed occurred. But it is still not known whether the security forces shot anyone at all during the unrest of March 14th and 15th in Lhasa. Figures used by Tibetans abroad have fudged the issue. The Dalai Lama himself says more than 200 people have been killed by Chinese security forces since March. But he and his aides have provided scant detail. There is little doubt that several were shot in other parts of the plateau, most notably in Sichuan, where several dozen may have been killed.

In the case of Lhasa the Tibetan government-in-exile has published a list of only 23 Tibetans killed on March 14th and 15th. But it is unable to provide a consistent account of these incidents. In an interview with *The Economis*t in May, the Dalai Lama admitted he was uncertain about how the unrest developed in Lhasa and the details of any shooting by the security forces there: "There is a lot of confusion and contradictory information."

No photographs have come to light from Lhasa of violence by police or troops on March 14th or 15th, nor of any resulting casualties. Photographs of dead bodies displayed in the streets of Dharamsala, the seat in exile in northern India of the Dalai Lama, are said to be those of Tibetans shot in Sichuan. Yet camera-equipped mobile phones are widely used in Lhasa and internet services remained uninterrupted during the rioting. Georg Blume of *Die Zeit*, a German newspaper, who arrived in Lhasa on March 15th just after the riots, says he expected to hear residents describe a massacre. But in nearly a week of interviews he was unable to confirm any reports of killings by the security forces.

The relay of the Olympic torch through Lhasa was much curtailed for security reasons—though officials claimed the truncation was somehow related to the devastating earthquake in Sichuan in May. Officials must have been deeply relieved. Their original plans for three days of ceremonies across Tibet would have been a security nightmare—and would have been even worse had there been no crackdown in March. Foreign journalists and tourists as well as a sprinkling of Tibetan exiles would have poured in. Disgruntled Tibetans would have sensed an opportunity.

Whether deliberate or incompetent, the authorities' failure to stop the rioting at the outset has been a bigger setback for Tibet's long-term stability and China's foreign relations than any official is likely to have calculated on March 14th. Chinese officials appeared to condone the xenophobic outcry triggered by Western criticism of the clampdown. The party, after all, prides itself on its nationalist credentials. But the outburst has also shaken party officials. They are ever fearful that they might become the target of their own citizens' anger. The earthquake helped restrain the nationalist anger. But as Sharon Stone, an American actress, found in May when she suggested that the earthquake could have been karmic retribution for the clampdown in Tibet, it is easily reawakened.

A matter of trust

The Dalai Lama expresses little optimism. He says that because of the unrest the Chinese government might now rally round the view held by some of its officials that "they can't trust any Tibetans". It might, he said, step up "demographic aggression" by sending more ethnic-Han Chinese into the region. The Dalai Lama talks of reports that the Chinese have fenced off land and speculates that this might be given to settlers. He even says he had heard a report that 1m of them might come in to Tibet once the Olympic games are over.

Such remarks suggest the enormous gulf between the Dalai Lama and the Chinese government and the difficulty he and his aides face in separating truth from rumour. Just as there is scant proof that the "Dalai clique" is actively engaged in fomenting unrest, as Chinese leaders claim, so there is little evidence that China is actively seeking to change the ethnic mix of Tibet. Migrants from elsewhere in China, mainly neighbouring Sichuan, are indeed flocking to the region. But this is part of a nationwide flow of tens of millions of job-seeking migrants into the richer cities of China that has occurred since the 1980s. Tibet's problem is the pace of this influx. No official figures are published. But it appears to have accelerated rapidly in recent years thanks to a rapid growth in tourism, which has received a big boost from the railway.

Sporadic discussions between Chinese officials and the Dalai Lama's advisers over nearly three decades have achieved nothing. China has not allowed the Dalai Lama's delegates to visit Tibet itself since 1980, following three trips there during which Chinese officials were embarrassed by emotional displays of public support for the Dalai Lama's team. The last trip they made to any part of the Tibetan plateau was a visit to Qinghai in 1985. Deng Xiaoping, then China's paramount leader, met a representative of the Dalai Lama in 1979. But current animosities make such a high-level meeting hard to imagine today.

Chinese officials will be alarmed that unrest spread as far as Rongwo. Qinghai, home to the biggest Tibetan population outside the "autonomous region", had long been relatively peaceful and was ruled with a lighter touch than Tibet itself. The practice is frowned upon, but some monasteries there had greater freedom to display the Dalai Lama's portrait.

Even now, amid a plateau-wide campaign of "patriotic education" in monasteries during which monks in some places are being asked by officials to denounce the Dalai Lama, two portraits of him were on display at Kumbum, a monastery close to Qinghai's capital, Xining. Yet official tolerance of such infractions in recent years has not appeared to make Qinghai's Tibetans any more loyal to the party than those in more tightly controlled Tibet.

Curbing official vitriol directed at the Dalai Lama would certainly please Tibetans. But addressing their economic grievances, such as Han domination of Lhasa's shops and taxi services, would help a lot too. The officials who decided to stand back during Lhasa's riots may well have gambled—correctly as it turned

out—that the violence would be directed mainly at businesses run by Hans and Huis (members of a Muslim minority) rather than at symbols of party power.

The crackdown has been less astute. Officials have depicted the riots as politically inspired, and have ignored the underlying ethnic and economic grievances, which are rekindling pro-independence sentiment. Hardly any political slogans were uttered during the unrest on March 14th. But as the riots started outside the Ramoche temple, a Tibetan writer said she heard that a citizen, startled and delighted by the authorities' failure to intervene, shouted "Tibet is independent!" Few would dare even to whisper that openly now. But many Tibetans still cherish the dream.

Investment in the Mediterranean

The Med’s moment comes

Jul 10th 2008
From The Economist print edition

Dpa

Globalisation is bringing a wave of money to the Mediterranean

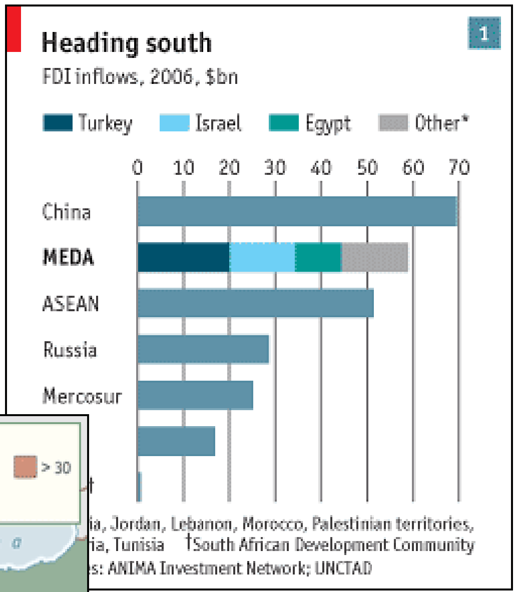
LOOK southward from the southern tip of Spain, across the strait of Gibraltar. There, only 14km (nine miles) away through the slight sea haze, arises the vast construction works of a new seaport to the east of Tangier in northern Morocco. Tanger Med (pictured) opened its first docks last July. Handling 3.5m containers a year, it is already as big as Felixstowe, Britain’s biggest port. A second terminal opens this summer, and within seven years its annual capacity will rise to 8.5m. It will be the largest container port in the Mediterranean, not far behind Europe’s biggest, Rotterdam (although merely one-third the size of the Asian giants of Singapore, Shanghai and Hong Kong). Similar ports are being finished in Algeria, Egypt, Malta and Tunisia.

One-third of the world’s container traffic already passes through the Mediterranean, bringing manufactured goods from China and South-East Asia to Europe and the east coast of America. The Moroccans, spending some €3.5 billion ($5.5 billion) on Tanger Med, and others along the coast hope that if they build, a big slice of global commerce will come to their shores. Goods will arrive to be broken down into smaller loads and sent around Europe. Manufacturers will set up factories in tax-free zones planned around the docks, bring in components for assembly and serve the huge market across the water.

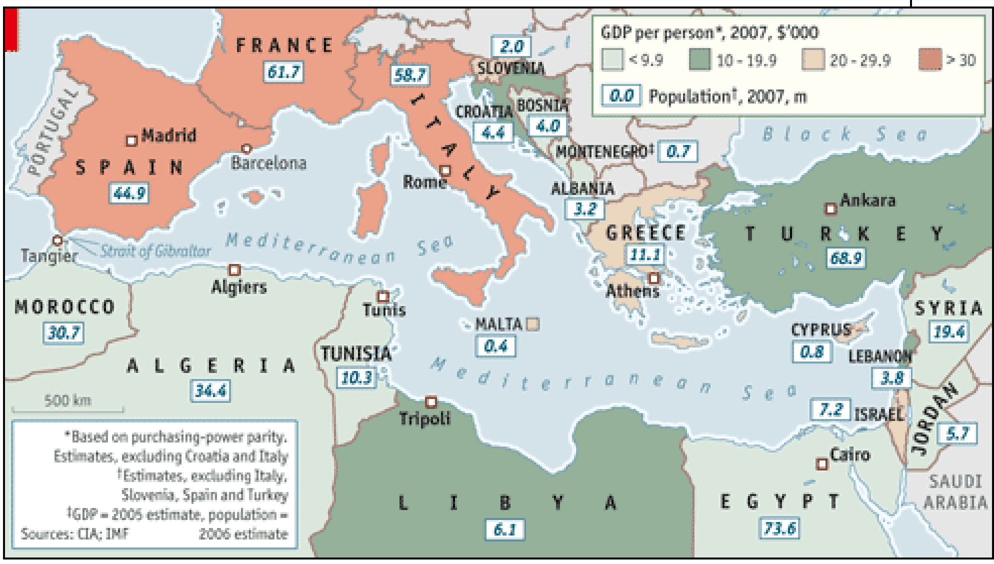
Already there is substance in the haze. The Mediterranean’s southern and eastern coasts are pulling in huge quantities of foreign direct investment, on a scale second only to China among emerging economies (see chart 1). The wave started about five years ago, and now private-equity groups and large investment funds from the oil-rich Gulf states are joining in. Tanger Med is but one mighty symbol that something is stirring along the coastline.

This is not the story usually told about the Mediterranean’s poorer coasts. The MEDA ten (a group of southern and eastern economies) have an average income per head of only $6,200, putting them roughly where western Europe was in 1950 and Romania was in 1975. Even though the gap in GDP per head has been closing, thanks to falling fertility rates as well as relatively faster economic growth, at today’s pace it would take almost 160 years for the MEDA ten to catch up with the European Union

average. Unemployment is probably between 20% and 30%, even though official figures say it is around 12%.



This last figure helps to explain why Europeans have tended to see the other side of the sea as more of a threat than an opportunity: a source of immigrants, often young and illegal, mainly Muslim and frequently unwelcome. In Italy, Spain and tiny Malta, illegal arrivals are of especial concern. Another reason is nervousness about the region's political health. Work your way around the map below and you will find few true democracies and much instability, actual or potential.



Yet commerce is scarcely a novelty in the Mediterranean. Centuries ago, the Middle Sea was a hub of world trade: to the Romans, it became *mare nostrum*—"our sea"—surrounded by the empire. Now the inflow of foreign direct investment may be reversing a long relative decline in the fortunes of the southern and eastern shores. The MEDA economies have managed to step up their growth rates to 4.4% since the turn of the century. A summit to be held in Paris this weekend may give the Mediterranean's revival a further push.

Tanger Med is a point of arrival for foreign investors. The leading shipping and port companies, such as Maersk and DP World will have terminals there. This February Renault and Nissan started preparing the ground for a huge car factory costing €600m. The Franco-Japanese alliance aims to build low-cost cars and vans not just for Europe but for markets around the world, mostly in emerging economies where the basic Renault Logan has already proved a winner. Annual output will start at 200,000 vehicles, but will double within a few years.

Twenty years ago, Europe's car industry stopped building new factories in low-wage Spain and Portugal, and turned to eastern Europe, including Turkey. The step across the Med, to a country where wages are one-fifth of what they are on the northern shore, is of great significance. Competitors will watch and may follow. Morocco has already attracted car-parts firms such as Leoni (from Germany), Valeo (France) and Clarcor (America). For 50 years Europe's car factories have shipped in labour from Turkey and north Africa to their factories in Germany and France, and invested little to the south. Now the capital is moving to the labour: the mountain is moving to Muhammad, if you will.

Things have been stirring on the poor side of the sea since 2000, albeit painfully slowly. In 1995 the EU started what is known as the Barcelona Process, intended to forge a Mediterranean free-trade area by 2010. By and large, that is happening through bilateral agreements between the southern countries and the EU. Sadly, the southerners' political conflicts and lack of will to act in concert—they do not even trade much with each other—meant that each country was dealing alone with the Europeans. That has cost them. For example, industrial products can move across the sea tariff-free, but agricultural products from countries such as Morocco are still subject to EU tariffs.

Piecemeal as it is, the political and economic partnership offered by the EU has prompted change to the south. According to Bénédict de Saint-Laurent, director of ANIMA, a network of inward investment agencies for the MEDA countries, it has prompted economic, financial and fiscal reforms which have made

their economies much more open and more transparent. Inflation has come down from an average above 20% to around 5%. Debt has come down from 80% of GDP to around 60%, budget deficits from 5% to 3%. This has been fuelled by rises in receipts from tourism and remittances from migrant workers in Europe, as well as oil and gas revenues. The fiscal squeeze may not have done much for the region's poor, but for the first time governments have the means to build better roads and houses, which are much needed.

Europe has also injected capital into the MEDA countries: around €8.7 billion between 1995 and 2006, plus loans worth €15 billion from the European Investment Bank and partners such as the World Bank under a programme known as FEMIP (Facility for Euro-Mediterranean Investment and Partnership). Between 2007 and 2013 another €14.9 billion is due to be sent as EU aid, with €8.7 billion from FEMIP. If that seems generous, an analysis by ANIMA suggests that at €8.30 per person up to 2006 and €12 up to 2013, it is minuscule compared with the hundreds of euros per person showered every year on eastern European countries before they joined the EU, and tinier still next to the structural funds lavished on Ireland, Greece and Portugal. But the EU's involvement could be about to rise.

On taking office last year the president of France, Nicolas Sarkozy, launched his own plan for a Union for the Mediterranean. This was sold as a way of resuscitating the Barcelona Process—although its true purpose may have been to offer Turkey a consolation prize instead of membership of the EU. At first Germany's chancellor, Angela Merkel, took a dislike to it, seeing in it a new club without the EU's northern members but paid for with EU (ie, mainly German) money. Now it is within the purview of the EU, Ms Merkel seems more at ease with Mr Sarkozy's scheme, which has been diplomatically renamed "The Barcelona Process: Union for the Mediterranean". This weekend in Paris Mr Sarkozy, whose country now holds the European presidency, will hope to put more flesh on his idea.

The EU's clout and money are probably necessary to get the new union going. But there is a risk that European governments will concentrate on immediate questions of security and migration rather than on measures to boost the economies of their southern neighbours (which in turn may improve security and limit northward migration). In June Benita Ferrero-Waldner, the EU's commissioner for external relations, told the European Parliament that real projects were needed to bring about economic solidarity. But she could cite only the promotion of fast sea-routes and a motorway linking the Maghreb (in the west) with the Mashrek (Egypt and the eastern shore). This weekend's meeting, however, may produce a plan for closer integration. Despite the Franco-German row, observers such as Mr de Saint-Laurent credit Mr Sarkozy with breathing life into the flagging Barcelona Process.

Follow the money

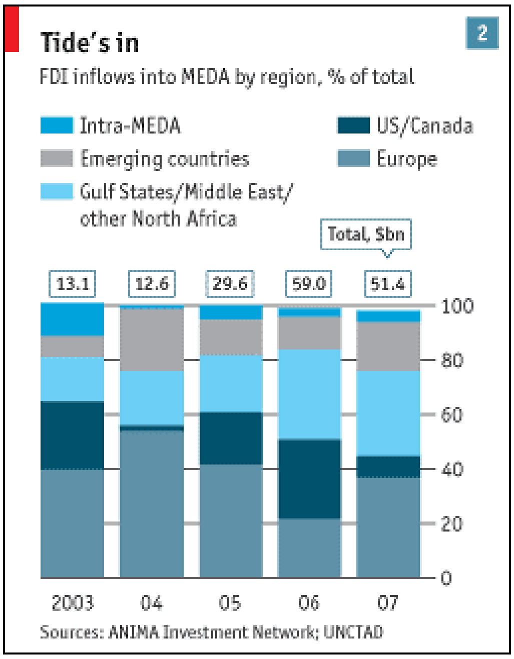
Whatever happens at a political level, the economic signs are encouraging. There is a groundswell of foreign direct investment in the region. According to figures collated by ANIMA, the southern and eastern shores of the Mediterranean are now attracting more investment than other emerging economies such as India, Mercosur or southern Africa; only China catches more. That raises three questions: where is it coming from; where is it going; and who is investing?

For the first time the MEDA countries as a whole are punching their weight in terms of inward investment: they have about 4% of the world's population and are now getting a slightly higher share of investment flows. Inward investment has grown sixfold in six years.

The leading recipients have been Turkey, Israel and Egypt. The prospect of entry into the EU has fuelled Turkey's five-year inward investment boom, though political difficulties and the slow pace of adhesion to Europe may explain a recent slowdown. Israel, with its hyper-educated technical workforce, boosted by arrivals from the former Soviet Union, has been a happy, high-tech hunting ground for American investors. Renault have moved in too, to make electric cars. Egypt's political stability and economic reforms since 2004 have attracted investment too—notably the €12.9 billion purchase in December last year of Orascom Cement by Lafarge of France, paid for in Lafarge shares. Behind these leaders, Algeria and Morocco have each seen inward investment grow tenfold since 2002.

To be sure, there are downs as well as ups: the dotcom bust curbed American investment in Israeli technology; and first estimates for 2007 show a fall of about $8 billion across the region, caused by fewer mega-projects in tourism and property, a slowing of privatisation and fewer purchases of Israeli firms by American ones. A plan by Agrium, a Canadian company, to build a $1.2 billion fertiliser factory in Egypt was halted by local business rivals and environmental protests. Even so, says ANIMA, the number of investment projects is still running at around 800 a year.

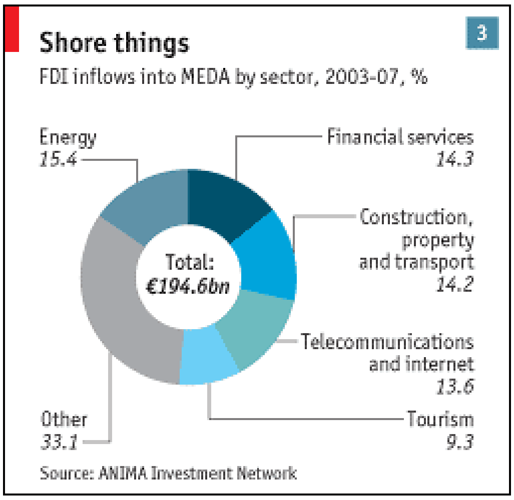
Behind this groundswell lie several factors. The boom in energy and raw materials has brought in oil and gas explorers but also investors in petrochemicals, fertilisers and cement. The maturity and saturation of European markets is another reason to look south. Privatisation of banks and telecoms firms has also attracted investors, notably from the Gulf. The recent strength of the euro against the dollar should help too. Safran, a French aeronautical firm, is directing investment to Morocco to escape the pain of the strong euro. It is a big supplier to Airbus, which has made it clear that it expects its suppliers to price in dollars. EADS Socata, another subsidiary of Airbus's parent company, has also invested directly in Morocco for the same reason.



The source of the funds has changed in the past five years (see chart 2). Europe still accounts for about 40%, but North America's share has shrunk from 25% to around 10%. Meanwhile the portion coming from the oil-rich Gulf states has risen from 16% to over 30%. More intriguingly, the share of emerging economies such as Brazil and India has climbed from 8% to around 20%.

Although energy is an important draw for investors, it accounts for less than one-sixth of the whole (see chart 3). Banking (led by European banks) has not been far behind. Industries such as telecoms, chemicals, metalworking, tourism and car parts continue to attract dozens of deals a year across the region. Europeans have been buying homes by the thousand. Many are long-term residents rather than tourists.

The inward investors can be grouped into four types, according to Mr de Saint-Laurent. The first might be called "offshore" investors. These are firms attracted by deposits of oil and gas in places such Algeria, Libya, Morocco and Tunisia. They are offshore in that they ship in all their labour, equipment and supplies. They pay the state for the resources they extract, but have little further effect on the local economy. The second group consists of European companies, led by the French but also including the Spanish and Italians. Reflecting their colonial histories, the French and Spanish tend to be found in the west, the Italians farther east. These investors usually form joint ventures or buy local small and medium enterprises, if only because such partners are needed in the Islamic Arab cultures of the region.



Third comes a new group, the Gulf funds. Their billions tend to go to the huge resorts springing up along the coast. Investors from Dubai have a €10 billion project in southern Tunis, a €3 billion development in Algeria and €600m site in Morocco. With them come Spanish builders, such as Sacyr Vallehermoso, which see on the southern shores of the Mediterranean an opportunity to recreate the old boom on the Costas back home. These investors have something in common with the offshore oil-and-gas brigade: often, not much spills over into the local economy besides low-paid jobs for cleaners and waiters.

The fourth group, also newcomers, are perhaps the most interesting: investors from emerging markets. Several Indian companies have set up shop in the region. Tata has invested in motor manufacturing and outsourced information-technology work in Morocco. Wipro Technologies, a computer-services firm, also does IT work in the region. Ranbaxy Laboratories, a drugmaker, has factories there. Gujarat State Fertilisers and Coromandel Fertilisers from India are investing in a Tunisian factory to make phosphoric acid from the rich local reserves of phosphorus. South Korean investors also pop up, for instance with a car-parts factory in Tunisia and hotels in Syria. These industrial investors have no qualms about taking over local companies with thousands of employees—meaning that they are thoroughly integrated into the local economy, and their activities have a big knock-on effect.

The region's boosters would also like to attract more money from a fifth group of increasingly interested investors: private-equity funds. The rapid increase in foreign direct investment flows is encouraging, because they indicate the region's attractiveness to international capital: the export markets it can serve, wage costs and so forth. Increased interest from private-equity groups in small and medium enterprises would be a measure of these investors' confidence in the entrepreneurship on offer around the Mediterranean.

In 2007 private-equity funds had a remarkable year in emerging markets, with 204 funds raising $59 billion, about 80% more than in 2006. Around 140 funds are reckoned to operate in the south and east of the Mediterranean, plus another 181 in Israel (which is a case apart, because of the virtual integration of its economy with America in general and Silicon Valley in particular). But the funds are starting to spread throughout the region, with 18 in Morocco ($846m invested), ten in Egypt ($611m), nine in Tunisia ($64m) and nine in Turkey ($1.2 billion). The trend, however, has been to go for project finance rather than investments in smallish companies.

Med revival

The falling away of the countries on the Mediterranean's southern and eastern shores from their European neighbours has been sad and wasteful. Algeria once was the breadbasket of the Roman empire; today it is the biggest wheat importer in Africa. Many things hold the region back, not least bad infrastructure, poor education and dysfunctional politics. The new economic hope is not evenly spread: foreign direct investment is swallowed disproportionately by Egypt, Israel and Turkey.

The boom in energy and raw materials should give many countries a start in building their economies up. If foreign investors do no more than harvest the oil and gas and leave, the region may simply stall again. What is needed is more of the joint-ventures and industrial projects represented by firms such as Safran and Renault-Nissan. But the real test will be whether the region's economy can be broadened and deepened. Then clearer shapes may emerge through the haze across the strait.

Bank consolidation

Under the hammer

Jul 10th 2008
From The Economist print edition

Illustration by Satoshi Kambayashi

A wave of M&A deals is expected to hit the industry—eventually

LIKE plane-crash survivors forced to eat their fellow passengers, investment bankers have found some sources of nourishment amid the wreckage of the banking industry. Helping weakened institutions to raise capital has produced a useful stream of fees. Goldman Sachs, a tediously successful investment bank, notched up a 72% increase in equity-underwriting revenues in the second quarter, much of it from other banks. But many have their eyes on an even bigger prize: the wave of M&A deals that is expected, eventually, to result from the credit crisis.

That a big shake-out is coming is in little doubt. Weaknesses in funding and business models have been laid horribly bare. Some franchises were too focused on the wrong markets. Wachovia, America's fourth-largest bank, has suffered from outsize exposure to California's imploding housing market and is a potential takeover target. Others face regulations that threaten their profits. The Wall Street banks are bracing for tougher capital and liquidity requirements as the price for access to the balance sheet of the Federal Reserve. Others still are questioning whether they have the right mix of businesses. The integration of volatile investment banking and staid wealth management at UBS and Credit Suisse, two Swiss banks, is the subject of much alpine soul-searching. Allianz, a German insurer, has apparently lost patience with its foray into investment banking, and is restructuring its Dresdner Bank subsidiary.

Rumours fly about the blockbuster deals that may soon be done. Lehman Brothers, a Wall Street bank that is desperately fighting to restore confidence in its prospects, is at the centre of many of them. Barclays, Deutsche Bank, HSBC and Royal Bank of Canada are among the names to have been bandied about as predators in recent weeks. UBS, which has been hit by massive write-downs on mortgage-backed securities, is also the subject of whispers—with Barclays, Deutsche and HSBC again to the fore. Bright-eyed bankers peddle ideas for other combinations. How about Lehman's Wall Street clout and Standard Chartered's emerging-markets network? Or HSBC and Merrill Lynch?

Short of an implosion to rival that of Bear Stearns in March, however, the rumours are unlikely to become real deals for the time being. For sellers, shares have fallen so steeply that deals are only for the truly desperate. Lehman, where the employees own lots of the equity, has a strong reason not to sell out while prices

are so low. UBS is badly bloodied, but has raised lots of capital and said on July 4th that it will come close to breaking even in the second quarter. In Germany the long-awaited sale of Postbank, a retail bank, is reportedly sticking on the optimistic price expectations of Deutsche Post, its parent.

More importantly, buyers are scarce. “There are so few people with strong hands to play,” says Huw van Steenis, an analyst at Morgan Stanley. Those banks that do have the firepower to make purchases have plenty of reasons to sit tight.

In an environment this febrile, banks are anxious to husband their own capital rather than deplete it. Deutsche Bank is under pressure to bring down its leverage ratio, a measure of gross assets to capital. Barclays raised £4.5 billion ($9 billion) in June, but is still more thinly capitalised than many of its peers. HSBC has been burnt by its disastrous acquisition of Household, an American lender, and is in any case committed to expanding in emerging markets rather than developed ones.

Remember too that those banks able to contemplate acquisitions just now are the very ones that tended to manage their balance-sheets most conservatively in the run-up to the crisis. Taking a bet on a big deal today would be a huge and uncharacteristic gamble. Due diligence on banks’ structured-credit exposures remains a nightmarish prospect for would-be acquirers (“a toxic tool-chest of joy” is one observer’s pithy description of Lehman).

Liquidity is also now a big part of buyers’ calculations. Few want to bump up the amount of debt that needs to get rolled over while credit markets are still dislocated. Inevitably, accounting standards add to the complexity, by requiring acquirers to account for the assets and liabilities they buy at fair value.

In addition, paying out today makes little sense, because targets are still getting cheaper. On July 7th the KBW Bank index of American commercial-bank shares fell to its lowest level since 1997, as investors fretted about rising credit losses. Buyers would doubtless also welcome greater certainty about the regulatory reforms before forking out, particularly over the higher capital requirements the investment banks may have to bear.

Regulators themselves may set up roadblocks to deals, either because they take a generally dim view of capital-sapping acquisitions or because of the rules. The restriction that no bank can own more than 10% of American deposits is one reason to doubt reports linking JPMorgan Chase and Wachovia. For UBS, the Swiss would also doubtless want a foreign buyer to decamp to Switzerland, a big barrier to a deal. “Consolidation will come in two years’ time, not now,” says Alessandro Profumo, the boss of UniCredit, an Italian bank. “For now, people are conserving capital.”

The less that big pieces of the jigsaw move, the more smaller ones will instead. Banks’ need for capital is not yet satisfied and there is mounting concern that investors are less willing to inject cash into sinking assets (see article). Disposals are the obvious escape route. Some smaller deals are already being done. Bidding is under way for the insurance arm of Royal Bank of Scotland; Banco Sabadell and Banco Pastor, two Spanish banks, have put bits of their insurance divisions on the block too. Citigroup is in talks to offload its German retail operations; predators will doubtless hope that it decides to sell some of its emerging-markets operations too. Deutsche snapped up the Dutch corporate-banking arm of ABN AMRO from Fortis, a Benelux bank, for a song on July 2nd. It paid £709m ($1.1 billion) in cash.

Expectations grow that Merrill Lynch, which is due to report its second-quarter earnings on July 17th, will sell some or all of its stakes in Bloomberg, an information provider, and (more damaging to future earnings) BlackRock, a thriving fund manager. A phoney war has broken out down under in anticipation that HBOS, Britain’s biggest mortgage lender, will offload its Australian unit. According to one of Europe’s most senior bankers, there will be “an unending fire-sale of non-core assets” over the next 18 months.

The big question, of course, is whether that will keep bank finances shored up long enough for markets to stabilise. If losses continue to spiral, capital dries up, and disposable assets cannot find purchasers, banks will have little choice but to cut back even harder on lending, or to take whatever price they can get.

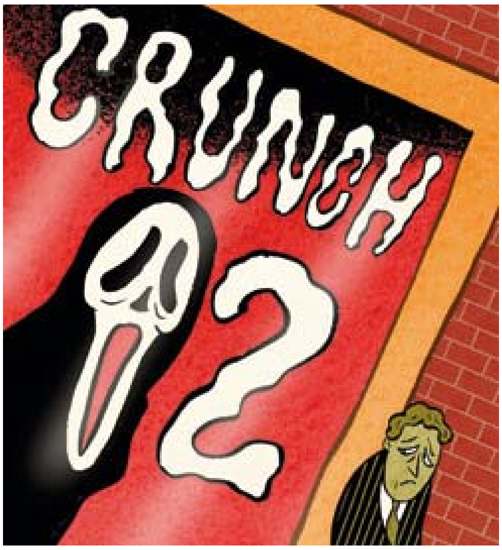
Buttonwood

A fate worse than debt

Jul 10th 2008
From The Economist print edition

Banking-industry woes once again disrupt the credit markets

Illustration by Satoshi Kambayashi



HOLLYWOOD may love to churn out sequels but markets do not think much of them. Almost four months after the rescue of Bear Stearns, investors are again grappling with worries about the health of the banking industry. The spreads, or excess interest rates, on the riskiest corporate bonds are almost back to the levels last seen in March.

Each day brings new sources of alarm. On July 7th shares in Freddie Mac and Fannie Mae, the American housing-finance giants, were pummelled on account of a Lehman Brothers report which suggested, if accounting rules were strictly applied, that the government-backed firms would have to raise $75 billion between them. Although Lehman thought the rules would not actually be applied to Fannie and Freddie, that was brushed aside by sellers determined to assume the worst. Meanwhile, an American mortgage lender, IndyMac Bancorp, was told by regulators that it had insufficient capital. It is now slashing its loan book.

Although this week's commitment by Ben Bernanke, chairman of the Federal Reserve, to extend the Fed's lending window to investment banks into 2009 may offer some reassurance, investors still worry that medium-sized American banks may be allowed to go bust; after all, they are neither too big nor too complex to fail. And in Britain the share price of Bradford & Bingley, a mortgage bank, sank even further, dropping a long way below the rights-issue price and reopening debate about its future.

For credit markets, these banking problems are doubly ominous. They will cause the industry to cast about for more capital, but there is no reliable source of supply. If Bradford & Bingley is any indication, investment banks will have grown more cautious about underwriting rights issues. Hedge funds, another potential source of capital, are funded by the banks themselves. Fund-management groups, according to a recent Merrill Lynch poll, mean to be underweight bank shares.

That leaves the sovereign-wealth funds as the only investors with cash to spare. But such funds are still licking their wounds, having provided capital to banks last year at share prices well above today's.

The banks' problems feed back into the credit markets. For if the banks cannot raise as much capital as they need, they may feel they have to sell assets. And that may mean off-loading corporate and asset-backed bonds, even if the banks must accept fire-sale prices. The ABX index of asset-backed bonds is below the level that it sank to in March.

Analysts tend to agree that spreads are much higher than are needed to compensate investors for the likely default rate. According to Moody's, a ratings agency, the default rate over the past 12 months on global speculative, or junk, bonds was just 2%; the only company outside America to walk away from its debt was a Bulgarian steelmaker. Jim Reid, a credit strategist at Deutsche Bank, quips that, if the spreads on investment-grade debt accurately reflect default rates, everyone will end up living in caves.

But spreads often fail to reflect the likelihood of defaults. This was true during the credit boom, when they fell to historically low levels, as investors chased anything with a yield higher than government bonds. And it is true now because, although an investor could make money by buying corporate bonds and holding them for five years, few are able to follow such a strategy. The big risk investors face is buying too soon. Traditional bond managers fear losing their clients if they have another poor quarter. Hedge-fund managers may find that the prime brokers who lend them money will cut off their funding if their positions deteriorate.

Just like last summer, the risk is of a downward spiral, in which nervous investors sell bonds, driving prices down, only increasing the general nervousness. The system is still deleveraging, at least according to the latest figures from America—which show bank loans contracting at an annualised rate of 8% over the 13 weeks to June 25th.

To make matters worse, the fundamentals for the corporate-bond market have worsened since last August. Expectations for corporate profits are being revised down, as margins come under pressure from slower growth and higher commodity prices. Headline inflation is well above target, so central banks are unlikely to ride to the rescue with interest-rate cuts; indeed, many are preferring to tighten monetary policy. This is one sequel where the scriptwriters are going to have to work extra hard to come up with a happy ending.

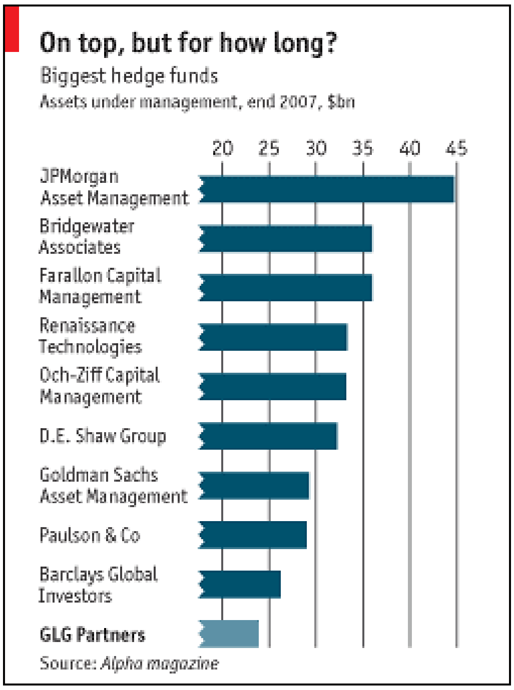
Hedge funds

The secrets of succession

Jul 10th 2008
From The Economist print edition

Can hedge funds outlive their star managers?

THOSE good at running money rarely run companies well. The stellar hedge funds of the 1990s failed to make it to the top-ten this decade (see chart). George Soros's Quantum Fund began to decline after a bad yen trade; Julian Robertson's Tiger Management suffered from a premature bet against the dotcom bubble; and Long-Term Capital Management? Don't ask.



Today's alchemists have taken this lesson to heart and are keen to make sure their companies last. For some this is partly a personal odyssey. Ken Griffin, the number-crunching founder of Citadel, reportedly likes to read management bibles in his office. Others have reformed their partnership structures.

The more cautious have invited in external investors; for example, D. E. Shaw, the world's sixth-biggest hedge fund, sold 20% of the business to Lehman Brothers in 2007. More radically, Highbridge sold a majority stake to JPMorgan Chase in 2004, though it retained operational independence. And last year a handful of top funds flirted with conventional company structures, including public listings.

Britain's Man Group has been listed since 1994, although it is unusual, because of its focus on one "black-box" product, as well as funds of funds. Apart from Man, arguably the biggest pure hedge fund to embrace full orthodoxy is GLG Partners, Europe's largest hedge fund, which floated last year. Only two of its four original partners still work at the business (one left after a run-in with regulators). It has both an externally hired co-chief executive and a chief financial officer, as well as a board with big-hitting independent directors. Unlike its quoted peers, Och-Ziff Capital Management and Fortress Investments, GLG chose to float with a one-vote-per-share structure, although its founders do retain dominant stakes.

That did not stop GLG from stumbling earlier this year. Its shares have tumbled by almost 40%. It performed poorly in the year to the end of April; its funds declined by a weighted average of 7%. More importantly in mid-April GLG suffered the departure of Greg Coffey, a star emerging-markets trader, who ran funds contributing a quarter of GLG's $24bn of assets under management and about a third of last year's profits. Since most of these assets are not locked in, GLG expects to lose the bulk of them in coming months.

Abandoning the familiar hedge-fund structure has not liberated GLG from the familiar pitfalls of volatile profits and personalities. But the firm is back on the attack. Since April, it has won a mandate to run $3bn of new money, albeit with a lower fee structure than normal. Performance has recovered somewhat. (In any case, hedge funds have had a difficult year.) On July 7th GLG hired Driss Ben-Brahim, a Goldman Sachs bigwig. He will be charged with running a corner of Mr Coffey's empire and building a "global macro" team to bet on currencies and global interest rates, a type of investing last in vogue when Messrs Soros and Robertson were at their zenith. And on July 10th the hedge fund recruited two senior emerging-markets traders formerly at Morgan Stanley.

GLG is not out of the woods yet, nor is it clear that its recent record can be explained by its structure (although having executives who are not glued to their screens probably helped).

But conventional wisdom is that hedge funds need the tight control and secrecy of partnerships in order to cope with the turbulence of their industry. At the very least being public does not seem to have been a disadvantage for GLG. Providing performance picks up it could yet become an example of a hedge fund

that is capable of making profits year in, year out, with a long-term ownership structure: a formula as elusive as that behind any black-box trade.

Private equity

Annuals horribilis

Jul 10th 2008
From The Economist print edition

Private equity firms open up, a little

REMOVE the useful bits from annual reports—the accounts—and you are mainly left with a queasy stew of executive portraits and corporate mission statements. Jowls and jargon dominate the inaugural publications of the big private-equity firms, issued to comply with new British guidelines penned by Sir David Walker.

Sir David set the hurdle low for financial disclosure by the management firms themselves: a breakdown of investors is the main requirement. Typically that leaves the other 60-odd pages free for annual-report perennials: maps of the world, giant font sizes, the vapid ("2007 was a year of transition") and the tautological ("future outlook"). Although there are teacher's pets, such as Britain's Terra Firma, which even has a section on executive pay, there are rebels too. America's TPG produced only a two-page press release. Taken together, the reports most closely resemble publicity brochures.

Does this matter? Probably not. Other investors do not have to publish detailed reports about themselves. Of more importance to competitors, financiers, customers, employees and regulators is information about the businesses run by private equity. Here the Walker report was tougher, recommending detailed annual filings on a par with those of quoted companies for all but the smallest private-equity-owned firms. The initial signs are that the industry in Britain is complying. Elsewhere, Denmark has drawn up similar guidelines, while in America many of the largest buy-out targets still publish detailed results, even though they are no longer public.

The principle that big businesses, whether public or private, should make their performance known is gaining ground. Meanwhile, those keen to unlock private-equity firms' finances will have to wait for them to float—although based on the fiendishly complex accounts of Blackstone, which listed last year, they should not set their hopes too high.

Chinese and Taiwanese banks

Finally thinking Strait

Jul 10th 2008 | TAIPEI
From The Economist print edition

The first steps in what could become more financial integration in Greater China

Correction to this article

XIAMEN, the 19th-century tea port known to the British as Amoy, became in the 20th century a fortified front line in China's struggle with Taiwan. For many years one of the only things it exchanged with Taiwan was artillery fire across the narrow strip of water that separates it from the Taiwan-controlled island of Kinmen.

But since it was made a "Special Economic Zone" in the 1980s, Xiamen has boomed, largely thanks to investment by Taiwanese firms. Its ties with what China still regards as a renegade province could grow even tighter soon, as both China and Taiwan consider reforms that could encourage cross-strait banking, and, conceivably, greater financial integration across Greater China.

The world's attention has been focused on the Chinese tourists who arrived, with the novelty value of astronauts, in Taipei on July 4th. But since President Ma Ying-jeou took office in May, his government has also taken steps to liberalise financial services between Taiwan and China.

The first move was the decision, just before Mr Ma took office, by the Financial Supervisory Commission (FSC), the main financial regulator, to allow Fubon Financial to take a 20% stake in Xiamen City Commercial Bank. With the FSC's blessing, Fubon, which is one of Taiwan's largest banks, can now complete the deal through its Hong Kong subsidiary, technically making it a national transaction for the Chinese. The China Banking Regulatory Commission, the Beijing-based industry regulator, has indicated it may give the deal its blessing next month. If it does, Fubon will become the first Taiwanese bank to have operations on the mainland.

It is not a giant first step. Xiamen City Commercial is a small, regional bank with just over $2 billion in assets and 30-odd branches. Yet the deal enables Fubon Financial to keep closer relations with its Taiwanese business clients on the mainland. The bank also hopes to introduce Taiwanese management techniques to a banking sector that is reckoned to be ten or 15 years behind the island's. Xiamen City Commercial's Chinese customers will feel "*er mu yi xin*"— a change for the better, says Victor Kung, a boss of Fubon Financial.

An even bigger opportunity for Taiwanese banks in China, however, may be locally owned small and medium-sized enterprises (SMEs) and start-ups, which are not served well by China's big state banks, says Jeffrey Wong, managing partner in Taipei for McKinsey, a consultancy. Instead they often have to resort to illegal underground lenders. Taiwanese banks, which have experience with SMEs at home, could well provide a legal alternative. More Taiwanese banks are set to follow Fubon's trail. Cathay United, Taiwan Cooperative Bank and Chinatrust Commercial Bank are said to be interested in Fuzhou City Commercial Bank, another larger city in Fujian province across the strait.

There are still plenty of political hurdles to overcome. Firstly, China does not officially recognise Taiwan's government, or any of its agencies—which complicates any direct negotiations over the banking industry. Meanwhile, the FSC bans Chinese banks from setting up operations or investing in Taiwan, though it revealed in June that it may reconsider that stance.

Chinese banks—including two of the largest, Industrial Construction Bank of China and Bank of China—also appear to be eyeing opportunities in Taiwan. This would help them to follow their Taiwanese clients who bank with them on the mainland. Also, Taiwan's population of 23m is similar in size to the prosperous economic clusters in China, and arguably more sophisticated. Mr Wong believes that Chinese banks may consider using Taiwan as a test platform for more advanced products, such as mobile-phone banking.

More financial integration across China, Taiwan, Hong Kong and Macau, is "inevitable" says Mr Wong. "The

question is not if, but to what degree”. The region already shares supply chains, sales channels and human resources (with the exception of Chinese nationals working in Taiwan). Cross-border banks could offer a single service to clients that have, for instance, a factory in China, a sales office in Hong Kong and a research centre in Taiwan.

Meanwhile, other financial dealings with China are fast being liberalised in Taiwan. This month the cabinet moved to relax restrictions on mutual-fund investments in Chinese stocks. Taiwanese banks have been allowed to trade the yuan for the first time since the Communist revolution. A journey of a thousand miles begins with a single step, said the Chinese philosopher Laozi. What is needed now is a big leap across the Taiwan Strait.

Correction: we wrongly wrote that the FSC bans Chinese banks from setting up or investing in China. The ban, of course, applies to Taiwan. This error was corrected on July 11th 2008.

American housing

The wrecking-ball response

Jul 10th 2008
From The Economist print edition

How to deal with a glut of empty homes

TUMBLING house prices in America, rising foreclosures and a glut of unsold homes have produced a variety of unusual, even desperate, responses from policymakers. Of the 129m housing units in America, 18.6m stand empty. At 2.9%, the home-owner vacancy rate, which measures the share of vacant homes for sale, has reached its highest point since measurement began in 1956. At the end of the first quarter there were 2.3m empty homes on the market, an increase of more than 160,000 from the end of 2007. There is a vicious circle: the huge number of houses on the market pushes home prices down, and as prices decrease, mortgages become harder to refinance, leading to more foreclosures, vacancies and so on. The more homes are on the market, the less chance that prices will stabilise.

The announcement on July 8th of a steeper-than expected 4.7% drop in pending home sales in May dashed any hopes of a quick turnaround. In cities such as Atlanta and Charlotte, formerly vibrant neighbourhoods have taken on the dilapidated air of ghost towns since the subprime crisis. Municipal taxes go unpaid, and boarded-up homes invite looting, drugs and other criminal activity. In one near-abandoned Atlanta neighbourhood, speculators who could not sell homes even paid homeless people to occupy them. Cleveland and Baltimore have filed lawsuits against subprime lenders this year, claiming their practices cost the cities millions of dollars in lost taxes because of lower property values. These cities are exploring another bold solution to the surplus of vacant houses: demolition.

In prepared remarks for a speech earlier this year, Ben Bernanke, chairman of the Federal Reserve, praised programmes that seek to demolish the most ramshackle units in order to “mitigate safety hazards and reduce supply.” Unlike mortgage bail-outs, this policy does not encourage risky lending. However, it requires cities to spend money on demolition merely to lose money through reduced taxes.

Congress is debating more complicated solutions. The mortgage-rescue plan crafted by two Democrats, Christopher Dodd, the chairman of the Senate Banking Committee, and Barney Frank, the chairman of the House Financial Services Committee, aims to help as many as 400,000 people stay in their homes with more manageable mortgages—at a cost of $300 billion. That could help slow the foreclosure rate, but it does little to address the problem of vacant homes already on the market and the continued building of new ones. The National Association of Home Builders has supported giving a $7,500 tax-credit to first-time buyers. It hopes this will help allay their fears of tighter credit conditions and falling prices.

Some sensibly argue that it is unwise to inflate the market artificially before prices find their natural bottom (on the heels of a housing bubble no less). Eventually, the forces of supply and demand will work their magic. But Lawrence Lindsey, of the American Enterprise Institute, a think-tank, has proposed his own miracle cure. He wants to grant provisional green cards to foreigners willing to invest at least $10m in groups of residential properties and to hold them for at least five years. Mr. Lindsey points out that 100,000 participants in the scheme would pump at least $1 trillion into the housing industry, and would wipe out a large slice of excess housing inventory. His proposal gets points for creativity, but not for credibility. Given the dreary American jobs market, and plunging house values, only foreigners with more money than sense would apply.

Bank security

Bodily functions

Jul 10th 2008
From The Economist print edition

Can biometrics make banking more secure?

GCI

Give your bank the finger

VILLAINS, beware. The fight against online fraud has a new weapon—the panic finger. Banks in Europe and South Africa are testing a device that authenticates online transactions by asking customers to run their fingerprint over a reader. If the print matches a stored copy, the device, which is made by Siemens, a German firm, and AXSionics, a Swiss firm, shows a PIN code that can then confirm the transaction.

Consumers can enrol more than one finger when they start using the scanner. That adds yet another layer of security: worrywarts can set the device to require a concerto's worth of fingerprints before it gives out the PIN code.

It also allows people to designate a panic finger, for use if fraudsters are forcing customers to use the device. Swipe the said digit across the scanner and the transaction will appear to go through as normal even as the bank is alerted that something fishy is going on. For the truly neurotic, there is yet more reassurance. Criminals who are tempted to hack off customers' fingers will be disappointed: the scanner has to detect circulating blood to work.

All very ingenious, but will it take off? The technology is fast improving and the algorithms used to read fingerprints are more reliable than ever. Consumers value security. According to a survey of American bank customers in 2007 by Gartner, a research firm, more than half rate security features as extremely important when deciding whether to go online. Banks gain too. It is harder for customers to repudiate transactions when their fingerprints are all over them.

But two big hurdles remain—convenience and cost. Training customers to use something new is never easy. Scanning fingerprints adds time as well as security. And the device is another thing to lose or break. Systems based on voice biometrics look more user-friendly: people already use telephones, and can do so on the move. Voice signatures can also make transactions swifter, by cutting out the need to enter account details.

The economics are an even bigger barrier. The costs of the technology are coming down, but the device is still more expensive than other systems. Creating passwords costs virtually nothing and smart-card readers for use at home are much cheaper too.

Fingerprint scanners are not for the mass market, says Avivah Litan, an analyst at Gartner, who does think that voice biometrics will be in widespread use in America within three years. Siemens says that banks serving affluent customers are most likely to use its technology—fingers firmly crossed, that is.

Economics focus

Promises, promises

Jul 10th 2008
From The Economist print edition

How reliably aid is given can be even more important than how much is given

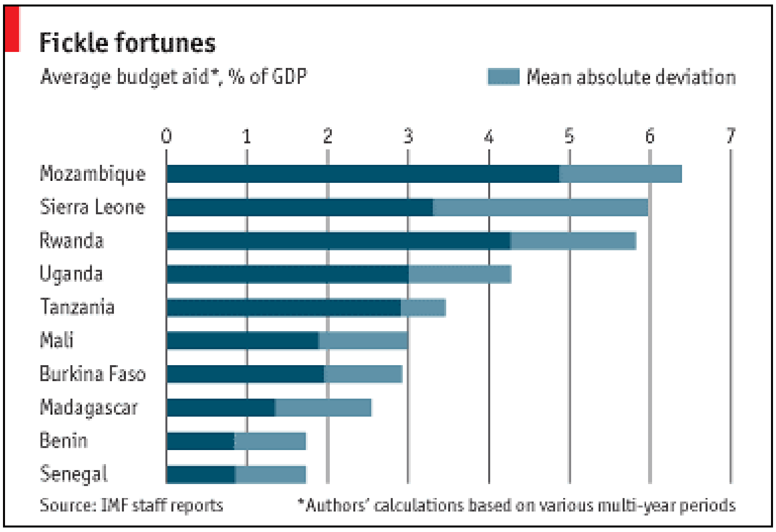
DEVELOPMENT aid can be as fickle as fashion. Remember those white Make Poverty History wristbands, which briefly made compassion chic in the run-up to the Gleneagles summit in 2005? Memories of the pledge made by G8 leaders there to double annual aid to Africa by 2010 also seem to have faded with time. According to the OECD, on current spending trends annual aid will fall $14 billion short of the $50 billion African target—not a statistic to savour as today's G8 leaders tucked into their eight-course banquet on the Japanese island of Hokkaido on July 7th. Once again, they vowed to honour their aid commitments to Africa, but they are not legally binding nor are they easy to pin down. As usual in the aid business, making promises is a lot easier than sticking to them.

Does that matter? After all, the effectiveness of such sweeping aid pledges has been questioned a lot lately. Last year, in his book "The Bottom Billion", Paul Collier, an Oxford economics professor, convincingly argued that aid, on its own, was unable to make a big difference to the world's poor. He saw it more as a way of stopping things from falling apart, rather than fostering growth. He and other scholars have argued that large disbursements are subject to the law of diminishing returns. Even at Gleneagles, aid sceptics warned world leaders of the dangers of "Dutch disease"—that a sudden windfall of hard currency could push up the exchange rate and damage a country's export competitiveness.

A new paper, by Oya Celasun of the IMF and Jan Walliser of the World Bank, suggests that failing to honour promises can in fact be more harmful than not offering any money in the first place. The authors examined yearly aid commitments, not long-term ones of the Make Poverty History variety. They show how unpredictable such aid flows are. The paper finds that the average absolute difference between aid promised and aid given was equal to 3.4% of each sub-Saharan African nation's GDP between 1990 and 2005. That is far greater than in any other region of the world. In countries that had experienced war, the fluctuations were particularly marked, partly because of shrinking economies: in Sierra Leone the swings were equivalent to 9% of GDP. It is also a myth, the authors show, that donors always give less than they promise: they are both capriciously generous, as well as capriciously stingy. During the same period, rich countries exceeded their yearly aid commitments to sub-Saharan Africa by an average of 1% of each recipient country's GDP.

Aid-dependent countries have limited access to international financial markets to help smooth over the sudden bumps and pot-holes. And governments cannot easily use their domestic debt markets to absorb the shocks, because these are shallow and too much government borrowing crowds out private investment. Poor governments thus have to alter their spending plans in response to aid surprises. The study shows that the impact is not spread evenly over the governments' investment and consumption plans, with damaging consequences.

In poor countries, government consumption is mostly composed of salaries, which are difficult to cut at short notice, not least for political reasons. Investment, meanwhile, is typically carried out near the end of the budget year. When the amount of aid does not live up to expectations, poor governments find it easier to cut investment rather than consumption. In Burkina Faso, for example, government budgets are allocated in January. To build a new school, the government must decide its location, plan its construction and examine tenders, a process that lasts until June, when the rainy season sets in. If, while builders anxiously wait for the rains to end, aid falls unexpectedly short, the easy option is to shelve the plans.



This would be less damaging if, during aid windfalls, poor countries made up for the foregone investment—but they do not. Investment spending has a long planning cycle, and is difficult to increase quickly. Governments instead take advantage of windfalls to ratchet up their consumption—but not the good sort, such as hiring nurses and teachers, which also requires plenty of advance planning. For 13 countries Ms Celasun and Mr Walliser looked at the relation between government spending and aid used to expand the budget (as distinct from aid earmarked for a project). For some countries, more than a third of such aid was prone to unexpected fluctuations (see chart). They found that for every aid dollar unexpectedly withheld, government investment fell by 12 cents, while government consumption remained stable. For every aid dollar unexpectedly given, consumption rose by 64 cents, while investment was unmoved. This is not proof of cause and effect; natural disasters or shoddy policymaking may lead to both unpredictable aid and higher current spending. But it is strong evidence for it.

Aid cannot always be predictable. It may suddenly pour into a country after an emergency. A country's political situation may change so drastically for the worse that donors may have doubts about the use of the money. Frequently they attach conditions to aid disbursements that may require governments to implement policies (such as fiscal straitjackets) or to reach goals (such as higher school enrolment). Some of these conditions may be worth their cost in unpredictability.

Blowing hot and cold

But more often than not, unpredictability is not the recipient's fault but the donor's, because of either changing governments or reallocations of aid to causes that are more fashionable than poverty relief, such as climate change. Frequently aid gets lost in a jungle of red tape. A survey of aid donors cited in the study found that 29% of delayed or lost disbursements were because of administrative problems in the donor countries.

Will the uncertainty surrounding Gleneagles cause the same kinds of problems as fickle yearly aid? Probably not. African governments plan their budgets around the more concrete yearly commitments; they appear to have long ago taken vague, sweeping promises with a pinch of salt.

Quantum information technology

Enigma variations

Jul 10th 2008
From The Economist print edition

Kobal

A device that counts photons will secure optical data networks from prying eyes

REMOVE the outer coating from a strand of optical fibre, bend it and attach a sensor to detect the tiny amount of light that will leak out. Hacking into an optical network like this is the modern equivalent of a wire tap. But now a laboratory in Cambridge, England, has found a way to turn a hacker's screen instantly blank if he infiltrates the network. This is because the data are being encrypted in a new and probably unbreakable way with one of the first practical devices to be developed for quantum information technology.

The idea of using the more arcane aspects of quantum theory to do things that standard information technology cannot manage has been around for a while. One branch of the field is quantum computing. This, if it can be made to work routinely, promises machines that can do lots of calculations in parallel instead of one at a time, and thus solve problems existing computers cannot manage. The other branch is quantum cryptography, which promises unbreakable codes for messages.

At the moment, quantum computing remains a laboratory curiosity—though a Canadian company called D-Wave has created a device known as Orion that it hopes to commercialise. Quantum cryptography, however, will soon pass into the quotidian realm if Andrew Shields and his colleagues at Toshiba's research laboratory in Cambridge have anything to do with it. Over the past few years they have been working on the various bits and pieces needed. And, as they report in *Nature Photonics*, an important part of the puzzle has just fallen into place.

Q's laboratory

The device in question is a photon detector. That is not very exciting by itself, but this detector counts single photons (the particles of which light is composed)—and can do so at room temperature. Most quantum systems are upset by heat. Orion, for example, operates near absolute zero, and previous attempts to build single-photon detectors have suffered similar constraints. Dr Shields's device, however, is a simple modification of the sort of equipment that is already used to detect multiple photons, and should thus be easy to deploy.

Such devices, known as avalanche photodiodes, rely on the fact that when a photon hits a semiconductor it often knocks an electron out of place, creating a positively charged "hole" in the crystal lattice in the place where the negatively charged electron used to be. If an electric charge is applied to the crystal,

these holes and electrons will move in opposite directions, knocking into the lattice and creating more and more holes. The resulting cascade of electrons and holes is easy to detect, showing that light has struck.

What is not easy to work out is exactly how many photons have arrived. To do that, you need to look at the signal just after it has been created, when its size bears some relation to the number of holes that started it. At that point, though, the signal is small compared with the electronic “noise” caused by the machine’s operation. What Dr Shields did was to work out a way of subtracting the noise, and thus extracting the signal.

Such a photon counter is essential if quantum cryptography is to work, because it will allow what are known as quantum repeaters to be built. In a classical telecommunications system the signal has to be boosted by a repeater every 80km or so. But a traditional repeater destroys the quantum states of the photons, such as their planes of polarisation. That does not matter for classical telecoms, but matters very much for quantum cryptography, which relies on the fact that no eavesdropper can intercept the message without changing those quantum states, and thus giving away the fact that he is on the line.

Dr Shields’s photon detector, however, permits cryptographers to use a phenomenon called quantum entanglement to make a repeater that does not destroy quantum states. Entangled photons share quantum states.

Such a quantum repeater uses groups of three photons for each bit of the message. One—call it A—is part of the original transmission. The other two, B and C, are created further down the line in an entangled state, and sent off in different directions. C goes to the recipient while B is fed into a device called a beam-splitter, where it meets A. The purpose of the beam-splitter is to compare the quantum states of A and B. If they are the same, the two photons will come out of the beam-splitter together. Since B and C have the same quantum states, that means C also has the same quantum state as A. If A and B are different, they will come out of the beam-splitter in one of three different places, depending on exactly which way they are different. The information from the beam-splitter is then transmitted separately to the recipient, so that he knows whether to accept C unaltered as part of the message, or apply one of three mathematical transformations to it, to arrive at the right result (this does not compromise secrecy, since any eavesdropper will not know what the transformation needs to be applied to). It is for this reason that you need a device, such as Dr Shields’s, which can detect and count individual photons as they come out of different parts of the beam-splitter. Now that there is one, the eavesdropper’s days may be numbered.

Solar cells

Guiding light

Jul 10th 2008
From The Economist print edition

Another new way of turning sunlight into power

THE main impediment to the widespread use of solar power—clouds and nightfall aside—is the cost of the silicon cells that actually convert the sun's rays into electricity. To keep the expense down, people have been searching for ways to minimise the size of solar panels relative to the amount of light they can harvest. Often, this is done using clunky pieces of kit called solar trackers, which tilt an array of mirrors so as to direct large amounts of sunlight onto small, high-performance cells.

Such trackers, however, are expensive to install and run, and are prone to heat the cells up too much, which reduces their efficiency and may damage them. That, in turn, means the cells have to be fitted with pricey cooling systems. An alternative now being tested is called the luminescent solar concentrator (LSC). Instead of focusing the sun's rays on a cell, as a solar tracker does, an LSC first traps them, wherever they have come from, and then delivers them to the cell using what is known as a waveguide. No moving parts are involved.

Many researchers around the world are working on LSCs. The latest group to report, in a paper in this week's *Science*, is led by Michael Currie and Jonathan Mapel of the Massachusetts Institute of Technology. They reckon they can triple the efficiency of such devices, and thus launch them on the path to success.

A standard LSC is made of a sheet of plastic containing molecules of dye and stretched within a frame that is, in effect, a single long, thin solar cell. The dye absorbs incoming sunlight, and then re-emits it. The re-emitted light is trapped inside the plastic sheet by a process called total internal reflection, which causes it to bounce between the sheet's surfaces without being able to escape, and thus guides it towards the circumferential solar cell. (Optical fibres work in a similar way.)

Alas, this approach, too, has its limits. In particular, some of the light is reabsorbed as it bounces around, and is lost as heat. The more dye molecules there are, the more light is lost. On the other hand, you want a lot of dye molecules in order to absorb a lot of light in the first place. A difficult balance has to be struck.

Dr Currie and Dr Mapel think they have found a way round this problem and, as a bonus, one that will also make LSCs easier to manufacture. Their answer is to get rid of the plastic sheet. Instead, they spray a sheet of glass with a mixture of dyes combined with a substance called tris(8-hydroxyquinoline) aluminium. In combination, the dyes and the glass act as the waveguide, preventing light from escaping. Meanwhile, the interaction between the different dye molecules and those of the tris(8-hydroxyquinoline) aluminium allows a quantum-mechanical phenomenon, called Förster energy transfer, to come into play. This eliminates the reabsorption loss by ensuring that light is re-emitted at a frequency which the dye molecules cannot then reabsorb.

On top of this—literally—Dr Currie and Dr Mapel have come up with another trick: placing a second sandwich of dye and glass over the first. The upper layer of dye intercepts high-energy light, such as ultraviolet. The lower one captures longer wavelengths that have passed unperturbed through the upper, and also any lower-energy light that has been re-emitted within the top layer and somehow escaped. The upshot is a device that, even as a prototype, converts ten times more of the incident light into electricity than a conventional solar cell—and another contestant in the increasingly crowded race to replace old-fashioned power generation with electricity from the sun.

Palaeontology

Colour vision?

Jul 10th 2008
From The Economist print edition

The plumage patterns of long-dead birds may yield to modern technology

J Vinther Yale

BONES and shells give a good idea of the shapes of ancient animals, but their colours generally remain mysterious. If Jakob Vinther of Yale University is right, though, that may soon change. He and his colleagues suggest, in a report in this week's *Biology Letters*, that previous researchers have misunderstood how feathers fossilise. In doing so those researchers have overlooked evidence of the pattern of ancient plumage.

Until now, the assumption has been that most feathers were colonised by bacteria before they were fossilised. What the palaeontologist sees is a combination of the impression in the mud left by the feather before it decayed, and the remains of the bacteria. Mr Vinther and his colleague Derek Briggs, however, wondered whether those remains really are bacterial, and they are now pretty sure that they are not. Instead, they think they are melanosomes—in other words, the particles of pigment that provide the blacks and reds of plumage.

Mr Vinther and his colleagues analysed two specimens. One was an isolated feather dating from the Cretaceous period (about 100m years ago) that was found in Brazil. The other was a feathered skull from the Eocene (55m years ago) that had been unearthed in Denmark.

When they examined these specimens using an electron microscope, they found that both were full of oval structures one or two microns long, which they suspected were melanosomes. To support this idea, they compared their fossilised specimens with a modern day equivalent: a black feather from a red-winged blackbird. They found that the oval structures from the fossils were similar in size, shape and orientation to melanosomes from the blackbird. Moreover, an X-ray analysis of the regions of the feathers containing these bodies showed them to be composed mainly of carbon—as would be expected if they were fossilised melanosomes.

Of course, fossilised bacteria would be expected to leave carbon traces too. Indeed, the structures that Mr Vinther interprets as melanosomes are thought by others to be the degraded remains of bacteria. However, the isolated Brazilian feather (pictured) contains both light and dark regions, and the oval structures are found only in the dark regions. Nor do the light regions contain significant amounts of carbon. If the carbon were bacterial then it ought to be everywhere. It is not. And if the oval structures were once bacteria, they should be everywhere, too. There is no reason why bacteria would colonise just part of a feather.

That, plus the similarity of the structures that do remain to those of melanosomes in a modern feather and the known resistance of melanin to chemical and biological degradation, is strong evidence that Mr Vinther has unlocked the secret of ancient plumage.

With the Brazilian feather, in particular, the pattern is easy to see. But trace imprints found in other fossilised feathers (despite an absence of carbon) may indicate the original presence of melanosomes that have since been lost to oxidation. Moreover, studies of living birds have shown that different shapes and arrangements of melanosomes are associated with different colours, ranging from black via red to buff. Melanosomes are also involved in the creation of iridescence, in which the colour is caused not directly by the pigment but by interference patterns that are created by the precise arrangement of the melanosomes. Indeed, two of Mr Vinther's colleagues at Yale, Richard Prum and Vinodkumar Saranathan, are studying the evolution of such iridescent "structural" colours.

Fossil feathers have been found at 50 sites around the world. Mr Vinther thus thinks it should be possible to learn a lot about what ancient birds looked like by studying the patterns of melanosomes from these

sites. And not only birds. Microscopic structures from other fossil species, ranging from bats to ichthyosaurs, have been interpreted by some as melanosomes. Suddenly, the monochrome world of the past looks as though it is about to turn coloured.

Evolution

A cold fish

Jul 10th 2008
From The Economist print edition

Fish species swap genes in a way that looks a bit like genetic engineering

SOME fish have special proteins in their blood to stop them from freezing to death—a remarkable evolutionary trait made no less so by the fact that biologists have known about it for some time. How this trait spread, though, turns out to be even more remarkable. If Peter Davies of Queen's University in Ontario and his colleagues are right, it demonstrates in fish an evolutionary mechanism hitherto seen mainly in bacteria, viruses and genetic-engineering laboratories.

As sea-ice develops, the briny water beneath it cools to -2°C. Whales, seals and penguins cope with the consequent danger of freezing up by burning vast amounts of food to keep their bodies warm and by insulating themselves with thick layers of fat. Fish, however, are not warm blooded, and are usually too small to support substantial fat layers, so they have found a different way round the problem. Many species that live in cold waters have special proteins in their blood which attach themselves to small crystals of ice and prevent these from growing to a size at which they would be dangerous.

Normally, such an advantageous trait would start as a chance mutation that gave its possessor an advantage in the struggle for life. The mutant's descendants would first take over their own species. Then, as that species diversified to occupy new ecological niches with the assistance of the mutation in question, it would come to be found in a group of species that had a common ancestor. At the same time, the mutant gene would undergo its own process of evolutionary refinement, and would end up slightly different in each of the daughter species. In animals, at least, this is the way evolution normally proceeds.

As Dr Davies reports in the *Public Library of Science*, however, that is not what seems to have happened with at least one piscine antifreeze gene. He and his colleagues analysed the antifreeze of diverse species and found that three—herring, smelt and sea raven—have nearly identical antifreeze proteins, even though they do not share a recent common ancestor. The chance of such similar proteins emerging in unrelated species is so vanishingly small that the team propose another option. They think the genes for antifreeze proteins jumped from one species to another.

If fish were bacteria, this would not be an outrageous suggestion. Bacteria (and viruses) regularly swap DNA. Viruses also, though more rarely, swap DNA with animals. But animals swapping DNA directly with one another is previously unheard of.

Dr Davies suggests that it may have happened here because fish have external fertilisation. In other words, males squirt sperm over eggs that have already been laid. That process allows sperm to go astray and, potentially, to end up attached to the wrong egg.

If a stray sperm actually fertilised the wrong egg, the result would be a hybrid that would almost certainly die. But if the egg were already fertilised then perhaps a lesser form of gene transfer might happen, with only a small amount of the foreign DNA being incorporated into the new creature. In this case, an advantageous gene transfer might be preserved.

Given the number of ice ages over the past 20m years, an antifreeze gene would be of great advantage. But exactly how common such "horizontal" gene transfer is in fish remains to be seen. Until this piece of work was done, it was thought impossible, so no one has looked. Now they will start doing so. And, if you want to find something, there is nothing like looking.

Economist.com BOOKS & ARTS

July 14th 1789

Remembering the barricades

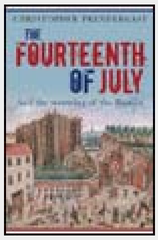
Jul 10th 2008
From The Economist print edition

AP

France's national day is a tribute to militarism, mythology and media kitsch

JULY 14th 1789, the day the Bastille prison was stormed, has an iconic hold on the French imagination. Schoolchildren are taught that it is the republic's founding moment. It is France's national day and a public holiday. A military parade is held on the Champs Elysées, and fighter jets, blazing a trail of red, white and blue, screech low over Paris. This year will be particularly grandiose. President Nicolas Sarkozy has invited as his guests European Union and Mediterranean leaders, as well as Ingrid Betancourt, the recently liberated Franco-Colombian hostage. But, of all the pivotal dates during the French Revolution, how did July 14th come to acquire such mythical status? This, rather than the events of the day itself, is the subject of this intriguing little book by Christopher Prendergast, an historian at Cambridge University.

The Fourteenth of July: And the Taking of the Bastille
By Christopher Prendergast



Profile Books; 205 pages; £15.99

Buy it at
Amazon.co.uk

The taking of the Bastille fortress, a symbol of arbitrary royal authority, was undoubtedly of revolutionary importance, in terms of weakening the monarchy and legitimising popular defiance. But other days have a fair claim to historic symbolism too: August 26th 1789, when the Declaration of the Rights of Man was adopted, for instance, or August 10th 1792, when the Tuileries Palace was stormed and the monarchy suspended. Besides, the commemoration of July 14th scarcely began in revolutionary spirit. At a military fete to mark its first anniversary in 1790, and to celebrate the new constitutional settlement, the Marquis de Lafayette, a French general, swore an oath "to be forever faithful to the Nation, to the Law and to the King". Dismayed, Jean-Paul Marat, a radical journalist and politician, described the proceedings that day as "shameful", adding: "The Revolution, as yet, has been merely a sorrowful dream for the people!"

As Mr Prendergast recalls, the fall of the Bastille was not quite the stuff of epic myth. Strictly speaking, the prison was not "taken"; the mob surged into its inner courtyard only after the governor, the Marquis de Launay, had offered a surrender. Although the crowd was primarily in search of arms, it found just seven prisoners to be freed. "Happenstance, paranoia and random violence" characterised the event, with rumour and counter-rumour fuelling acts of ferocious brutality. Launay himself was dragged out by the mob, his body ripped to shreds and his head hacked off by a cook with a kitchen knife, before being stuck on a pike for public view.

Napoleon Bonaparte abolished the July 14th celebration altogether. It was not resurrected as “Bastille Day” until 1880, nearly a century after the original events. The idea then, proposed by Benjamin Raspail, a deputy, was to create a “national festival”, as part of a republican package that also included adopting “La Marseillaise” as the French national anthem. Composed by Claude-Joseph Rouget de Lisle, a young engineer stationed with the army of the Rhine, it was written in a single night in 1792. In 1880 the deputies argued passionately about which date to pick for the “national festival”. Nobody, as Mr Prendergast points out, proposed September 22nd 1792, the actual date of the founding of the first French republic, for fear of legitimising the Terror that it unleashed.

July 14th was thus a political compromise. It merged the revolutionary message of 1789 with that of unity and reconciliation expressed by the anniversary fete of 1790. Partly to help heal the wounds of defeat in the Franco-Prussian war, Bastille Day was given a military theme which lasts to this day, and wrapped up in nationalist imagery “the union of army and nation under the flag”.

Since then, at various moments of crisis in French history, Bastille Day has been invested with differing messages, according to the needs of the time: working-class solidarity and revolutionary promise for the Front Populaire and the government of Léon Blum in 1936; liberation from occupation and the resistance-as-revolution myth in 1945. Today, it is mostly pageantry, with a lingering touch of popular festivity. But Mr Prendergast cannot conceal his scorn for what, he considers, has become “an altogether shoddier affair, progressively mummified into formal ritual orchestrated by assorted dignitaries” and “media kitsch”. For the French these days, he concludes a little too cruelly, it is perhaps above all regarded as “essentially a day off work”.

The Fourteenth of July: And the Taking of the Bastille.
By Christopher Prendergast.
Profile Books; 205 pages; £15.99

Philosophers' deaths

Stuff happens

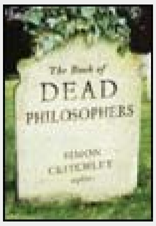
Jul 10th 2008
From The Economist print edition

IT CAME to Seneca by his own hand in a warm bath after falling foul of the emperor Nero, to Boethius by order of the Ostrogothic King Theodoric and to Giordano Bruno for affronting the Inquisition. Pneumonia saw off both Francis Bacon when he tried to deep-freeze a chicken with snow and René Descartes on having to rise before dawn in a Swedish winter to instruct Queen Christina. In modern times, Nietzsche's friend Paul Rée fell off an Alp and Moritz Schlick, a logical positivist, was shot to death by a deranged student.

An eye-catching list perhaps. But quite unrepresentative. Save when at work making distinctions and arguing relentlessly, philosophers are much like everyone else. They lead on the whole worthwhile but humdrum lives. Most die of old age in their beds. Philosophers' deaths make an unpromising theme for a book.

A handful of philosophers, it is true, have died philosophically, by which people usually mean they have figured in memorable accounts of exemplary ends. Socrates was one. Unjustly condemned, he could have left Athens for exile. But, as Plato recounts, he chose city over self, virtue over expediency, and drank the hemlock, surrounded by friends.

The Book of Dead Philosophers
By Simon Critchley



Granta Books; 256 pages; £15.99. To be published in America by Vintage in February 2009

Buy it at
Amazon.com
Amazon.co.uk

Another philosopher who had a philosophical end in this sense was David Hume. James Boswell, a famous diarist, visited him as he was dying in Edinburgh in 1776. He found Hume in good cheer, pressed him on life after death but could not shake the great man of his disbelief. The thought of annihilation at death, Hume told Boswell, caused him no more uneasiness than the thought of non-existence before birth.

Making a success out of such material requires style and wit. Simon Critchley's "The Book of Dead Philosophers" shows leaden playfulness. His tone can be portentous or giggly, as if he is unsure who he is writing for or why. The reader will "die laughing", he says. But most of the deaths he describes on his padded-out list of 190 philosophers are banal, and virtually none is funny. The real trouble is that Mr Critchley, a professor at the New School of Social Research in New York, cannot decide whether he is writing about philosophers' own deaths, exemplary deaths or philosophers' thoughts on death in general.

In nimbler hands the first topic is worth a brisk *jeu d'esprit*. Lord Quinton's entry on "Deaths of Philosophers" in the "Oxford Companion to Philosophy"—from which the first paragraph of this review was plundered—is a model of artful compression. In 31 erudite lines it satisfies the appetite nicely. The second topic—admirable or instructive death—is a non-starter if you limit yourself to philosophers, as Mr Critchley must quickly have realised. The pool of philosophers who have died in exemplary ways is too small.

Which leaves what philosophers have thought about death generally. Scattered through "The Book of Dead Philosophers" are sage remarks or good epigrams on death from, among others, Augustine, Montaigne and Hobbes. There are passing insights on death and friendship. But Mr Critchley's snippets are too short or digressive for sustained reflection and argument.

He nags at 20th-century English-speaking philosophers for approaching death obliquely, although he has earlier cited with apparent approval La Rochefoucauld's remark that you cannot stare at death or the sun directly. He finds recent French or German thinkers more profound, though those he cites sound in English simply more obscure.

It is wrong to imply that analytical philosophers have little to say on death. Fine examples include Paul Edward's essay, "My Death" in the "Macmillan Encyclopedia of Philosophy" (1966) and Thomas Nagel's

reply to Lucretius's reassuring claim that "death matters not a whit" in "Mortal Questions" (1985). Mr Critchley neglects both. Nor does he include one of the best essays in the modern continental tradition on friendship, death and suicide, "The Experience of Death" (1938) by Paul-Louis Landsberg, a German Jewish Catholic who refused a chance to flee and died in a Nazi camp. Any of these will tell you more than Mr Critchley.

The Book of Dead Philosophers.
By Simon Critchley.
Granta Books; 256 pages; £15.99. To be published in America by Vintage in February 2009

Prize-winning fiction

Apocalypse now

Jul 10th 2008
From The Economist print edition

Readers reward horrible histories

Raitt Orr & Associates

Her dark materials

THE post-apocalyptic seems to be all the rage with readers of novels and short stories, both highbrow and low. On July 10th an international readers' poll voted "Midnight's Children" the best novel ever to win the Man Booker prize, which celebrates its 40th birthday this year. In the same week, Henrietta Rose-Innes (pictured right), a 36-year-old South African writer, won the "African Booker", the £10,000 ($20,000) Caine prize for African writing, for a creepy short story entitled "Poison".

Sir Salman Rushdie's most famous novel opens on the night India was partitioned, August 14th 1947, a date that amounted to the apocalypse for many. As a new border was drawn, hiving off Pakistan from India, hundreds of thousands of Muslims and Hindus were hacked to death in a frenzy of sectarian killing from which both nations have yet to recover. As independence dawned, few would have bet on a future of peace for the subcontinent, let alone prosperity.

"Midnight's Children" marked the end of Raj literature and the birth of a new and palpable post-colonial literary excitement. This reviewer remembers being so absorbed by the book when it first came out in 1981 that she forgot to get off the tube and ended up at the end of the Piccadilly line in the far north-east of London.

In Ms Rose-Innes's prize-winning "Poison", it is not blood that fills the atmosphere but a toxic black grit—fallout from an explosion at a chemical factory that has emptied Cape Town of its inhabitants. Reminiscent of a post-apocalyptic work of an earlier generation, Nevil Shute's "On the Beach" (1957), "Poison" explores a city where there is no power and no petrol; only birds falling dead "like lumps of some tarry black precipitate" from a sky thick with "bloody light". Jude Kelly, chair of the judges, said the story showed "a sharp talent, a rare maturity and a poetic intelligence that is both subtle and deeply effective".

Financial markets

The usual suspects

Jul 10th 2008
From The Economist print edition

Hercule Poirot on the credit crunch

ALMOST a year has passed since the credit crunch burst into the public consciousness. As the publishing industry finally lumbers into action, authors are attempting, like real-life Hercule Poirots, to assemble the suspects in the library and identify the guilty party. Of these three efforts, the most entertaining (despite sloppy editing) is by Larry Elliott and Dan Atkinson, two British journalists; the book with the most detailed economic analysis is by Graham Turner, an independent consultant; while George Soros's slim volume is largely a rehash of his early writings.

The common narrative is that consumers in Britain and America were allowed to build up too much debt over the past 20 years by central bankers who were desperate to avoid recession. The debt was used to buy houses that consumers could not afford, within a reckless and poorly supervised financial system, leading to the crisis in the American mortgage market that broke last year. A further consequence of this lax monetary policy was big trade deficits in the Anglo-Saxon countries.

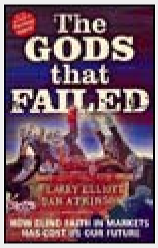
These deficits could be financed only with the help of surplus-generating countries in Asia and the Middle East, which has left Britain and America quite vulnerable. Manufacturing has been outsourced to the developing world and both America and Britain are now overdependent on the financial sector. To complete the circle, the triumph of Wall Street over Main Street has not only forced workers to take on more debt to maintain their spending, but also increased inequality by disproportionately boosting the incomes of investment bankers and hedge-fund managers.

The fruits of this system have not been that bad so far: global economic growth was especially strong between 2003 and 2007; Britain has not had a recession since 1992 and the financial liberalisation of the past 20 years has been accompanied by the “great moderation” of stable economic growth and low inflation. These successes have merely postponed the crisis, the authors say. Mr Turner foresees that, “The homeless crisis will intensify and tent cities will proliferate. More banks will fail. Economic depression may then follow recession.” Messrs Elliott and Atkinson go so far as to speculate about a crisis prompted by attacks on Iran’s nuclear facilities and hurricanes in the Gulf of Mexico that will push oil up to the unimaginable heights of $150 a barrel and wreck the global economy. (The oil price is almost there, without such calamities; such is the curse of publishers’ deadlines.)

And who is to blame for this mess? Messrs Elliott and Atkinson finger the “New Olympians”, the global elite of bankers and investors who worship what they describe as the gods of globalisation, financialisation and a whole pantheon of compound nouns: the very people, the authors argue, who oppose state intervention until they need a government bail-out.

Mr Turner seems to feel that the problem is free trade, an idea it is not clear he understands. In one rather odd section, he states that “free trade today is no longer driven by comparative advantage, rather the ability to maximise profits by cutting costs.” Surely the point of free trade has always been to do those things.

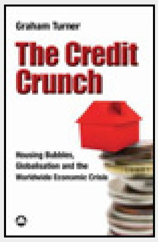
The Gods That Failed: How Blind Faith in Markets Has Cost Us Our Future
By Larry Elliott and Dan Atkinson



Bodley Head; 336 pages; £12.99

Buy it at
Amazon.co.uk

The Credit Crunch: Housing Bubbles, Globalisation and the Worldwide Economic Crisis
By Graham Turner

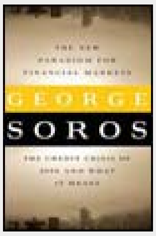


Pluto Press; 256 pages; $27.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

The New Paradigm for Financial Markets: The Credit Crunch of 2008 and What It Means
By George Soros

As for Mr Soros, he seems to blame all those who have not listened to him in the past. Much of his book is devoted to his philosophical lifework, the theory of reflexivity, which essentially states that, in areas of human activity, people's perceptions can affect the fundamentals which in turn affect perceptions. That explains why bubbles can form. Whilst true, this theory is neither as profound nor as original as he sometimes thinks. As he admits, “the theory emphatically does not qualify as scientific because it does not provide deterministic explanations and predictions.”



PublicAffairs; 208 pages; $22.95 and £12.99

Buy it at
Amazon.com
Amazon.co.uk

All three books expect more regulation of the financial system, which will inevitably have perverse consequences. It was the Basel accords on bank capital ratios, which only Mr Soros of these authors bothers to mention, that helped push the banks into securitising subprime mortgages. The development of the subprime market was enthusiastically backed by Democratic politicians in America, who believed that the poor (particularly ethnic minorities) were being denied the chance to buy their own homes.

The lesson of the credit crunch is that pinning the blame on any one participant may be fruitless. Rather like in one of Hercule Poirot's most famous cases, “Murder on the Orient Express”, they all did it.

The Gods That Failed: How Blind Faith in Markets Has Cost Us Our Future.
By Larry Elliott and Dan Atkinson.
Bodley Head; 336 pages; £12.99

The Credit Crunch: Housing Bubbles, Globalisation and the Worldwide Economic Crisis.
By Graham Turner.
Pluto Press; 256 pages; $27.95 and £14.99

The New Paradigm for Financial Markets: The Credit Crunch of 2008 and What It Means.
By George Soros.
PublicAffairs; 208 pages; $22.95 and £12.99

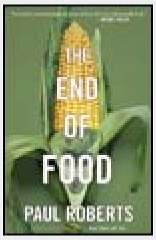
Food in rich countries

A bad habit they can't give up

Jul 10th 2008
From The Economist print edition

IT IS hard to get a grip on food. The UN's World Health Organisation worries about diminishing supplies and increased prices in poor countries; recent riots and near-riots in Haiti, Bangladesh and Egypt were sparked by the growing cost of wheat and rice. But, as Paul Roberts observes in "The End of Food", the developed world has lived through "a near miraculous period during which the things we ate seemed to grow only more plentiful, more secure, more nutritious, and simply better." In the second half of the 20th century, world output of corn, wheat and cereal crops more than tripled. Yet there is not enough to feed the rich, the aspirational and the poor in the world. A golden age has been transformed quite suddenly into a global crisis.

The End of Food
By Paul Roberts



Houghton Mifflin; 416 pages; $26.00. Bloomsbury; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Roberts insists that modern agribusiness is unsustainable and becoming more so. "Precisely at the moment in history when we need to shift our system of food production into overdrive, our agricultural engine is breaking down," he says. The industry has taken cheap oil for granted. Oil fuels transportation and farm machinery, and natural gas is the basis of synthetic nitrogen production (prices have tripled since 2002). Agriculture accounts for three-quarters of freshwater use, and water is becoming an increasingly scarce and expensive resource. Climate change makes some old assumptions about farming redundant. A combination of these factors, he says, will ultimately force a complete rethinking of the way we make food.

For years government subsidies held down grain prices, making food cheaper. Water was also plentiful—it takes 1,000 tonnes of water to produce a tonne of grain—and an ingenious process known as Haber-Bosch makes synthetic nitrogen fertiliser easily available to grain farmers. Ruthless price-cutting at supermarkets means consumers have grown accustomed to eating too much. (In the late 19th century, Europeans already thought Americans ate three or four times more than was necessary.) The most damaging consequence is that by 2000 31% of American adults were obese, with another 16% defined as overweight. American airlines spend $275m a year more on fuel simply to lift the heavier passengers. Mr Roberts claims that every year obesity causes 400,000 premature deaths in America. Food has become as deadly as tobacco.

A fruitful start would be to halve the size of portions in all American restaurants, but most consumers are reluctant rethinkers. Eating organic produce could be a partial solution, although one study suggests that the cost of avoiding intensive farm chemicals would mean a 31% increase in food prices. Government scientists believe that genetically modified crops might be the only way out of the crisis, but a majority of consumers are reluctant to listen.

Is there a model for the future? Fashionably, Mr Roberts believes that a local system based on easily obtainable seasonal foods that do not need to be transported huge distances would form part of a solution. The economics and greenery of this are far from proven. Mr Roberts can find only one country that has made "serious efforts" in this direction: Cuba, hardly a comforting example. The coming food crisis, warns the author, is as intractable as global warming, and no less urgent.

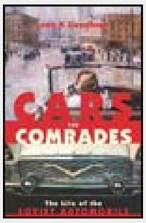
The End of Food.
By Paul Roberts.
Houghton Mifflin; 416 pages; $26.00.
Bloomsbury; £12.99

Soviet cars

Spluttering to a halt

Jul 10th 2008
From The Economist print edition

Cars for Comrades: The Life of the Soviet Automobile
By Lewis H. Siegelbaum



Cornell University Press; 309 pages; $39.95 and £20.50

Buy it at
Amazon.com
Amazon.co.uk

THEY were the butt of jokes in the West. (“How do you double a Lada’s value? Fill up the tank”). Inside the Soviet Union, however, the quantity and quality of the cars it produced epitomised both the system’s failure and the capitalist world’s advantage.

Cars bring freedom of movement (at least until the roads are full of them) and symbolise personal aspiration: both were frowned on in the Soviet Union. In “Cars for Comrades”, Lewis Siegelbaum, a professor at Michigan State University, provides extensive examples of the mental knots in which the Communist leaders tied themselves, wanting on the one hand to boast about their superiority over the West on all fronts, and being unable and unwilling to match it when it came to cars. A revealing bit of Soviet jargon applied to owners of cars was *chastnik*, meaning, roughly, a suspicious private person. Until the early 1960s, Mr Siegelbaum reports, vandalism against private cars was dismissed by the police as an understandable expression of egalitarian sentiment.

“Cars for Comrades” is a bit too generous. The truth was that even for Communist Party members, a private car was a huge and barely obtainable luxury for most of the decades of Soviet rule. Only in 1972 did the Soviet Union begin producing more private cars than trucks. And once it did, as Mr Siegelbaum aptly notes, it sowed the seeds of its own destruction. One reason, of course, was the glaring unfairness. For the Soviet elite, cars were plentiful. Some, like Leonid Brezhnev, had big collections of Western cars. The system also provided luxury limousines such as the sleek black ZIL. These were unreliable and thirsty, but a horde of mechanics took care of them.

As you became less important, life got worse. Lower down the range, there was the Volga, a mid-size saloon whose interior tended to fill with petrol fumes. The Lada was an obsolete Fiat, produced at the Togliatti factory south-east of Moscow: bought new, it required extensive repair in order to become roadworthy. Soon after that it would start rusting. Getting it serviced was a nightmarish process involving long waits, the use of personal favours, and unpleasant discoveries (light-fingered mechanics would steal scarce items such as the wing mirrors or windscreen wipers).

Soviet cars weren’t all bad: the excellence of Soviet engineering in the military field sometimes filtered through to civilian life. The Niva, an adapted army jeep, was a highly-strung but handy 4x4; oddly it is unmentioned in the book. Your reviewer bought a new one for $4,000 in 1998. It caught fire shortly after purchase, but then gave excellent service until its gearbox seized up four years later.

But those were rare exceptions. The worst Soviet cars were almost comical: when the Oka was launched in 1987, Mr Siegelbaum notes, “like the Zaporozhets [its predecessor], with which it shared a diminutive size and lack of safety features…it quickly became the subject of horrifying stories and mordant humour”. And for ordinary citizens, getting hold of even the worst rattletrap involved many years of waiting.

Even good cars fare poorly in Russia’s climate. The harsh winters, sloppy construction and scanty maintenance mean bad roads; salt and grit take their toll on bodywork. It is not surprising that Russia’s elite nowadays favour huge jeeps, invariably foreign-made. It is a pity that Mr Siegelbaum’s book has such poor photographs: for those who never experienced the true horrors of Soviet-era motoring, words are not enough.

Cars for Comrades: The Life of the Soviet Automobile.
By Lewis H. Siegelbaum.
Cornell University Press; 309 pages; $39.95 and £20.50

Jesse Helms

Jul 10th 2008
From The Economist print edition

Corbis

Jesse Helms, a conservative American, died on July 4th, aged 86

SUPPORTERS put the best face they could on him. A real Southern gentleman, from owlish glasses to black wingtip shoes, who would hold the door for any woman and thank you, with a nod and a smile, for smoking North Carolinian tobacco in his office. A kind-hearted soul, who had adopted a boy with cerebral palsy, who bought ice-cream for his congressional pages and was delightful at dinner, both to Democrats and Republicans. A true patriot, who saw America as God's country and the world's hope, who defended its values against the liberal media and the "muck" of decadent artists, and who had no truck with arms-control treaties, test-ban treaties, missile reduction, or any crimp on sovereignty. An anti-communist to make all others fade, convinced that the Soviets were irredeemable cheats and liars, determined never to deal with Fidel Castro's Cuba but to make sure the tyrant left it "in a vertical position or a horizontal position", preferably the latter. A doughty lover of liberty, who believed government should be small, laws unobtrusive, and men left alone to take responsibility for their own lives and their own decisions. "Compromise, hell!" he wrote in 1959. "If freedom is right and tyranny wrong, why should those who believe in freedom treat it as if it were a roll of bologna to be bartered a slice at a time?" He would have said the same, with his unwavering gimlet glare, 50 years later.

Yet there was no discounting the other side. Mr Helms was a racist, who thought the Civil Rights Act of 1964 "the single most dangerous piece of legislation" ever to come before Congress; who blocked what he could of the Voting Rights Act; who made fast friends with apartheid South Africa, and turned his back on Nelson Mandela; who let his re-election campaign in 1990 send out cards telling blacks that they risked jail for voting "improperly". When the rest of America had moved on, Mr Helms still carried in his head the mores of old Monroe, North Carolina, where he was born: the hot, quiet streets among the cotton fields, flowers on the steps of the Confederate monument, Negroes stepping into the gutter to let whites pass. No mingling occurred there. God's dictates were observed. Good conduct was rewarded, uppityness punished, with a horsewhipping if need be. In Monroe Mr Helms learnt to play the race card, that fear of touching and that sense of suppressed disorder. "Do you want Negroes working beside you?" asked the first political campaign he worked for, in 1950. "You needed that job…but they had to give it to a minority," ran one of the last, in 1990, as a white hand crumpled a rejection slip.

His bigotry also spread further. As a radio and TV commentator in the 1960s he railed against the welfare-scrounging poor, socialists and draft-resisters, as well as blacks. His five terms in the Senate, from 1973 to 2003, saw him set firm against government payments for the disabled, free school lunches and anything that encouraged bums in their "bum-ism". "Senator No" was powered by contempt, as well as small-government frugality.

By the 1990s homosexuals had become his prime targets: “disgusting people”, who had brought AIDS upon themselves by their revolting behaviour. “Nothing positive”, he said, “happened to Sodom and Gomorrah.” Beyond those feckless, flouncing crowds, in the wider world he surveyed as chairman of the Senate Foreign Relations Committee, he blocked aid from going down “foreign rat holes” and resisted for years paying money that was owed to the United Nations. Old age brought a mild repositioning, but no repentance, and no yielding on the subject of race. It was hard-wired into him.

Towards the culture wars

The truth was that American conservatism owed much to Mr Helms. He demonstrated, in 12 years of peak-time broadcasts for the Tobacco Radio Network and WRAL-TV, the power of talk radio to move minds, well before Rush Limbaugh caught on to it. He developed, in his North Carolina Congressional Club and later through Richard Viguerie (a direct-mail maestro), an independent donor base that raised millions for his campaigns and became a template for the Christian right. The efforts of the NCCC in 1976 delivered North Carolina to Ronald Reagan at a point where his primary campaign was collapsing, and stiffened his spine for subsequent runs for office. Mr Helms, therefore, helped to give America its greatest conservative president. He also prefigured the Republican renaissance in the South and across the country, changing parties in 1970 and luring working-class Democrats in overalls and pickup trucks to vote for him, the first Republican senator from North Carolina for more than a hundred years.

For that assistance there was a price to pay. Mr Helms was a polariser: so much so, that he never won more than 55% of the vote in North Carolina. With such a man let loose in the Senate, there was no hope of bipartisanship. Legislation and appointments alike were blocked on conservative principle. The wounds of the Johnson and Nixon years opened again and became the culture wars: one half of the country against the other, unable to understand, sympathise or compromise. In Jesse Helms, Southern charm personified, American conservatism embraced its own dark side.

Overview

Jul 10th 2008
From The Economist print edition

Hopes that **America's housing market** may have stabilised were dashed by a report from the National Association of Realtors. It showed that the number of home sales agreed on but not yet completed fell by 4.7% in May, following a rise in April. Fears that Fannie Mae and Freddie Mac, the government-sponsored mortgage giants, may have to raise capital added to stockmarket jitters.

Exports from **China** grew by 17.6% in the 12 months to June, to reach $122 billion. That was less than the 28.1% increase in the year to May and below expectations.

GDP in the **euro area** rose by 0.7% in the first quarter—revised from an earlier estimate of 0.8%—leaving it 2.1% higher than a year earlier. More recent indicators point to a far weaker second quarter. Industrial output in **Germany**, the currency zone's largest economy, fell by 2.4% in May, the third successive monthly decline. Exports from Germany and **France** both fell in May.

There were more signs that **Britain's** economy is turning down sharply. Industrial production fell 0.5% in May. Fragile banks are charging more for mortgages. Figures released by the Bank of England show that, for borrowers with a 25% deposit, the fixed cost of a two-year home loan rose by 0.37 percentage points, to 6.63%, in June.

Mexico's consumer-price inflation picked up to 5.3% in June, its highest rate in almost four years. Inflation in **Taiwan** rose from 3.7% in May to 5% in June.

Output, prices and jobs

Jul 10th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q1	+0.9	+1.4	+1.3	−0.1 May	+4.2 May	+2.7	+4.2	5.5 Jun
Japan	+1.3 Q1	+4.0	+1.4	+1.3	+1.2 May	+1.3 May	nil	+1.4	4.0 May
China	+10.6 Q1	na	+9.8	+9.0	+16.0 May	+7.7 May	+3.4	+6.5	9.5 2007
Britain	+2.5 Q1	+1.1	+1.6	+1.2	−1.6 May	+3.3 May§	+2.5	+3.4	5.3 Apr††
Canada	+1.7 Q1	−0.3	+1.3	+2.0	−4.5 Apr	+2.2 May	+2.2	+2.0	6.1 May
Euro area	+2.1 Q1	+2.8	+1.7	+1.3	+3.9 Apr	+4.0 Jun	+1.9	+3.5	7.2 May
Austria	+3.5 Q1	+3.2	+2.3	+1.9	+3.0 Apr	+3.7 May	+2.0	+3.0	4.1 May
Belgium	+2.2 Q1	+1.9	+1.7	+1.5	−1.3 Mar	+5.8 Jun	+1.3	+3.9	10.0 Jun‡‡
France	+2.2 Q1	+2.6	+1.7	+1.3	−1.2 May	+3.3 May	+1.1	+3.2	7.4 May
Germany	+1.8 Q1	+6.1	+2.0	+1.5	+0.8 May	+3.3 Jun	+1.9	+2.9	7.8 Jun
Greece	+3.6 Q1	+4.5	+2.9	+3.0	+2.0 Apr	+4.9 Jun	+2.6	+4.2	9.0 Mar
Italy	+0.3 Q1	+1.9	+0.4	+0.8	−4.1 May	+3.8 Jun	+1.7	+3.4	6.5 Q1
Netherlands	+3.3 Q1	+1.8	+2.4	+1.7	+0.4 Apr	+2.6 Jun	+1.7	+2.4	4.0 May††
Spain	+2.7 Q1	+1.2	+1.7	+1.2	−7.3 May	+4.6 May	+2.3	+4.2	9.9 May
Czech Republic	+5.3 Q1	+3.6	+4.7	+5.4	+3.4 May	+6.7 Jun	+2.5	+6.4	5.0 Jun
Denmark	−0.7 Q1	−2.4	+1.3	+1.4	+7.2 May	+3.8 Jun	+1.4	+3.1	1.7 May
Hungary	+1.7 Q1	+1.3	+2.0	+3.4	+5.5 May	+7.0 May	+8.5	+6.3	7.7 May††
Norway	+0.9 Q1	+0.8	+2.7	+2.4	+2.8 May	+3.4 Jun	+0.4	+3.4	2.5 Apr***
Poland	+6.1 Q1	na	+5.4	+4.3	+2.3 May	+4.4 May	+2.3	+4.2	10.0 May‡‡
Russia	+8.5 Q1	na	+7.2	+6.4	+6.7 May	+15.1 May	+7.8	+13.5	6.4 May‡‡
Sweden	+2.2 Q1	+1.6	+2.1	+2.0	−5.0 May	+4.3 Jun	+1.9	+3.3	5.9 May‡‡
Switzerland	+3.1 Q1	+1.3	+2.0	+1.5	+4.4 Q1	+2.9 Jun	+0.6	+2.4	2.5 Jun
Turkey	+6.6 Q1	na	+3.1	+4.0	+2.4 May	+10.6 Jun	+8.6	+10.5	11.6 Q1‡‡
Australia	+3.6 Q1	+2.5	+2.9	+2.8	+2.4 Q1	+4.2 Q1	+2.4	+3.7	4.2 Jun
Hong Kong	+6.8 Q1	+7.4	+4.8	+4.9	−4.4 Q1	+5.7 May	+1.3	+5.3	3.3 May††
India	+8.8 Q1	na	+7.7	+7.1	+7.0 Apr	+7.8 May	+6.6	+6.9	7.2 2007
Indonesia	+6.3 Q1	na	+5.9	+5.7	+2.6 Apr	+11.0 Jun	+5.8	+9.9	8.5 Feb
Malaysia	+7.1 Q1	na	+5.8	+5.7	+4.3 Apr	+3.8 May	+1.4	+5.2	3.6 Q1
Pakistan	+7.0 2007**	na	+3.6	+4.4	+4.3 Apr	+19.3 May	+7.4	+15.6	6.2 2006
Singapore	+6.9 Q1	+14.6	+4.5	+5.0	−12.8 May	+7.5 May	+1.0	+4.3	2.0 Q1
South Korea	+5.8 Q1	+3.3	+4.5	+4.3	+8.3 May	+5.5 Jun	+2.5	+3.5	3.2 May
Taiwan	+6.1 Q1	na	+4.3	+4.4	+5.3 May	+5.0 Jun	+0.1	+3.1	3.9 May
Thailand	+6.0 Q1	+5.9	+4.8	+4.7	+10.5 May	+8.9 Jun	+1.9	+7.2	1.5 Apr
Argentina	+8.4 Q1	+2.4	+6.0	+4.0	+6.6 May	+9.1 May	+8.8	+9.9	8.4 Q1‡‡
Brazil	+5.8 Q1	+2.9	+4.6	+3.6	+2.4 May	+5.6 May	+3.2	+5.7	7.9 May‡‡
Chile	+3.0 Q1	+5.8	+3.6	+3.8	−2.4 May	+9.5 Jun	+3.2	+7.5	8.0 May††‡‡
Colombia	+8.1 Q4	+6.8	+4.8	+4.3	+9.8 Apr	+7.2 Jun	+6.0	+6.5	11.0 Apr‡‡
Mexico	+2.6 Q1	+2.1	+2.3	+2.5	+5.5 Apr	+5.3 Jun	+4.0	+4.7	3.2 May‡‡
Venezuela	+4.8 Q1	na	+5.2	+4.0	−7.9 Mar	+32.2 Jun	+19.4	+30.8	8.5 Q1‡‡
Egypt	+6.9 Q1	na	+6.9	+6.7	+7.5 2007**	+20.2 Jun	+8.5	+17.1	9.0 Q1‡‡
Israel	+5.2 Q1	+5.4	+3.9	+3.6	+14.1 Apr	+5.4 May	−1.3	+4.2	6.3 Q1
Saudi Arabia	+3.5 2007	na	+7.2	+6.7	na	+10.4 May	+3.0	+8.5	na
South Africa	+4.0 Q1	+2.1	+3.9	+4.4	+9.8 Apr	+11.7 May	+6.9	+8.2	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+0.1 Q1	+7.8	−0.6	+2.0	−6.7 May	+11.4 Jun	+5.8	+10.5	4.1 Apr
Finland	+3.1 Q1	+2.8	+2.8	+2.3	+4.2 May	+4.2 May	+2.4	+3.7	6.3 May
Iceland	+1.1 Q1	−14.0	+0.9	+1.7	+0.4 2007	+12.7 Jun	+4.0	+10.0	1.0 May‡‡
Ireland	−1.5 Q1	−0.9	+1.4	+1.5	−0.9 Apr	+4.7 May	+5.0	+3.6	5.7 Jun
Latvia	+3.3 Q1	na	+2.4	+2.6	−8.5 May	+17.7 May	+8.2	+15.0	5.1 Apr
Lithuania	+6.9 Q1	−0.8	+5.5	+4.8	na	+12.5 Jun	+4.8	+10.4	4.7 Jun‡‡
Luxembourg	+3.8 Q4	+7.4	+3.1	+3.0	+8.8 Apr	+4.0 May	+1.9	+3.6	4.1 May‡‡
New Zealand	+0.9 Q1	−2.3	+1.4	+2.3	+4.2 Q4	+3.4 Q1	+2.5	+3.3	3.6 Q1
Peru	+6.6 Apr	na	+7.5	+6.4	+16.5 Apr	+5.7 Jun	+1.6	+4.8	7.9 May‡‡
Philippines	+5.1 Q1	+3.0	+5.6	+5.7	+5.2 Apr	+11.4 Jun	+2.3	+6.8	8.0 April‡‡
Portugal	+0.9 Q1	−1.0	+1.5	+1.4	−6.4 May	+2.8 May	+2.4	+2.4	7.6 Q1‡‡
Slovakia	+8.7 Q1	na	+7.5	+5.2	+4.0 May	+4.6 Jun	+2.5	+4.0	7.4 May‡‡
Slovenia	+5.4 Q1	na	+4.5	+4.0	+9.1 Apr	+7.0 Jun	+3.6	+5.5	6.6 Apr‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.3% in May. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted.§§New series ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Jul 10th 2008
From The Economist print edition

The Economist commodity-price index

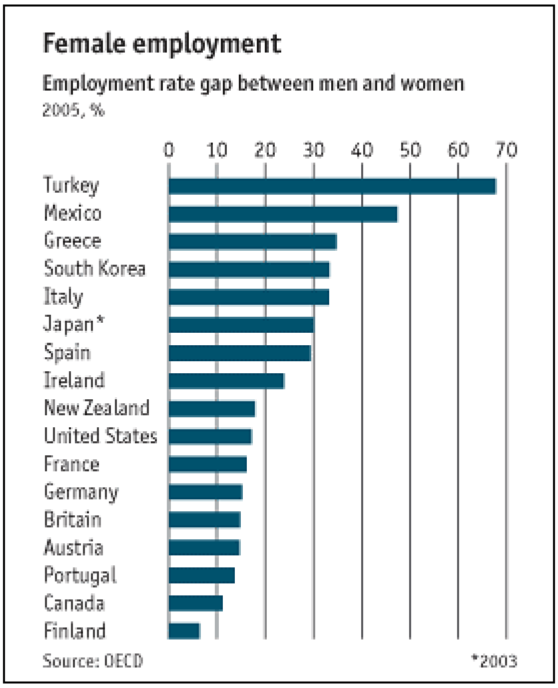
2000=100

			% change on	
	Jul 1st	Jul 8th*	one month	one year
Dollar index				
All items	272.2	265.6	+3.5	+29.4
Food	280.6	270.3	+3.0	+56.4
Industrials				
All	261.3	259.5	+4.2	+5.0
Nfa†	207.1	204.0	+1.3	+26.8
Metals	291.0	289.9	+5.3	-1.4
Sterling index				
All items	207.3	204.2	+2.5	+32.9
Euro index				
All items	159.8	156.6	+2.2	+13.3
Gold				
$ per oz	942.90	914.90	+4.9	+37.7
West Texas Intermediate				
$ per barrel	141.42	135.81	+3.1	+87.0

*Provisional †Non-food agriculturals.

Female employment

Jul 10th 2008
From The Economist print edition



The gap between female and male employment is smallest in Finland and largest in Turkey, according to the 2008 *Employment Outlook* from the OECD. Finland's "gender employment gap", defined as the difference between male and female employment rates as a share of the male rate, is just 6.4%. Across the mostly rich OECD membership, the gap is much larger. Moreover, women are paid 17% less than men on average. Anti-discrimination laws and greater access to higher education for women have helped narrow the employment and wage gaps in recent decades. But on one estimate cited by the think-tank, at least 8% of the remaining OECD jobs gap is down to discrimination.

Trade, exchange rates, budget balances and interest rates

Jul 10th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Jul 9th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	-831.2 Apr	-710.7 Q1	-4.9	-	-	-2.4	2.37	3.83
Japan	+99.7 May	+215.1 May	+4.1	107	122	-2.7	0.75	1.61
China	+248.7 Jun	+371.8 2007	+9.3	6.86	7.56	0.4	4.45	4.65
Britain	-185.4 May	-102.4 Q1	-4.1	0.51	0.49	-3.6	5.80	4.87
Canada	+45.6 Apr	+14.5 Q1	+0.8	1.01	1.06	0.4	2.37	3.77
Euro area	+17.3 Apr	-2.5 Apr	-0.3	0.64	0.73	-0.9	4.96	4.41
Austria	+0.8 Apr	+14.8 Q1	+3.0	0.64	0.73	-0.4	4.96	4.62
Belgium	+12.3 Mar	-1.1 Mar	+1.6	0.64	0.73	-0.5	5.03	4.75
France	-66.3 May	-39.9 Apr	-1.6	0.64	0.73	-2.9	4.96	4.61
Germany	+279.0 May	+269.1 May	+6.3	0.64	0.73	1.1	4.96	4.41
Greece	-61.8 Apr	-46.4 Apr	-13.9	0.64	0.73	-2.6	4.96	5.01
Italy	-12.7 Apr	-57.8 Apr	-2.6	0.64	0.73	-2.6	4.96	5.00
Netherlands	+59.3 Apr	+50.7 Q1	+6.0	0.64	0.73	0.7	4.96	4.61
Spain	-149.4 Apr	-160.6 Apr	-9.5	0.64	0.73	-0.7	4.96	4.68
Czech Republic	+5.0 May	-3.6 Apr	-2.6	14.9	20.6	-2.2	4.17	4.92
Denmark	+4.2 Apr	+3.5 May	+0.9	4.74	5.40	3.8	5.70	4.69
Hungary	+0.5 May	-7.2 Q1	-5.9	147	179	-4.2	8.63	8.60
Norway	+70.7 May	+68.8 Q1	+17.5	5.11	5.78	17.8	6.44	4.88
Poland	-17.8 Apr	-19.9 Apr	-4.0	2.08	2.73	-2.0	6.65	6.49
Russia	+164.1 May	+109.9 Q2	+5.2	23.4	25.5	3.5	10.75	6.74
Sweden	+18.8 May	+40.4 Q1	+8.1	6.01	6.65	2.4	4.25	4.36
Switzerland	+14.6 May	+91.4 Q1	+15.1	1.03	1.20	0.9	2.80	3.18
Turkey	-69.7 May	-43.0 May	-6.5	1.22	1.29	-2.7	19.38	7.73‡
Australia	-21.3 May	-61.4 Q1	-5.5	1.04	1.16	1.6	7.75	6.33
Hong Kong	-26.0 May	+26.6 Q1	+9.3	7.80	7.82	3.0	2.31	3.40
India	-85.0 May	-17.5 Q1	-2.9	43.1	40.4	-3.2	8.79	9.70
Indonesia	+38.0 May	+10.9 Q1	+2.3	9,173	9,033	-1.8	9.58	7.88‡
Malaysia	+35.9 May	+30.6 Q1	+14.0	3.24	3.45	-3.1	3.70	4.56‡
Pakistan	-20.7 Jun	-10.5 Q1	-8.0	71.5	60.4	-6.2	13.90	12.12‡
Singapore	+29.6 May	+35.8 Q1	+23.3	1.36	1.52	1.0	1.14	3.17
South Korea	+1.5 Jun	+1.7 May	-0.8	1,005	919	1.1	5.40	5.98
Taiwan	+13.8 Jun	+32.2 Q1	+5.3	30.4	32.7	-1.9	2.75	2.58
Thailand	+7.9 May	+13.2 May	+0.4	33.6	33.3	-2.7	3.70	5.26
Argentina	+11.4 May	+7.9 Q1	+2.9	3.01	3.10	1.7	16.25	na
Brazil	+30.8 Jun	-15.2 May	-1.1	1.61	1.89	-1.6	12.17	6.16‡
Chile	+18.9 Jun	+4.3 Q1	-0.6	501	518	9.0	6.84	4.47‡
Colombia	+0.4 Apr	-5.0 Q1	-3.7	1,723	1,966	-1.6	9.25	5.96‡
Mexico	-8.9 May	-4.8 Q1	-1.1	10.3	10.8	nil	7.76	9.16
Venezuela	+30.1 Q1	+26.7 Q1	+10.6	3.35	4.23§	2.4	17.50	6.55‡
Egypt	-22.2 Q1	-0.1 Q1	+0.2	5.35	5.69	-7.1	10.11	5.64‡
Israel	-13.2 May	+4.4 Q1	+0.2	3.22	4.25	-1.3	3.89	5.43
Saudi Arabia	+150.8 2007	+95.0 2007	+34.6	3.75	3.75	21.0	3.66	na
South Africa	-11.0 May	-22.3 Q1	-8.0	7.68	7.03	0.4	12.50	10.40
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	-4.3 Apr	-3.3 Apr	-10.5	9.95	11.4	-0.4	6.38	na
Finland	+12.3 Apr	+10.5 Apr	+4.7	0.64	0.73	4.5	4.90	4.60
Iceland	-1.3 Jun	-3.5 Q1	-13.5	75.7	60.3	1.0	15.88	na
Ireland	+37.2 Apr	-14.7 Q1	-3.2	0.64	0.73	-1.7	4.96	4.78
Latvia	-7.3 Apr	-6.2 Apr	-14.0	0.45	0.51	nil	5.85	na
Lithuania	-7.8 May	-5.8 Apr	-11.3	2.19	2.51	-0.7	5.78	na
Luxembourg	-6.5 Apr	+4.9 Q1	na	0.64	0.73	0.6	4.96	na
New Zealand	-3.6 May	-10.4 Q1	-7.0	1.32	1.28	1.9	7.85	6.24
Peru	+8.0 Apr	+0.8 Q1	-0.2	2.81	3.16	1.7	5.75	na
Philippines	-7.6 Apr	+5.6 Mar	+4.1	45.5	46.3	-0.5	6.06	na
Portugal	-29.3 Mar	-26.0 Apr	-8.5	0.64	0.73	-2.4	4.96	4.87
Slovakia	-1.1 Apr	-4.3 Mar	-3.2	19.3	24.2	-2.1	3.97	5.08
Slovenia	-3.4 Apr	-2.8 Apr	-5.8	0.64	0.73	0.1	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Jul 10th 2008
From The Economist print edition

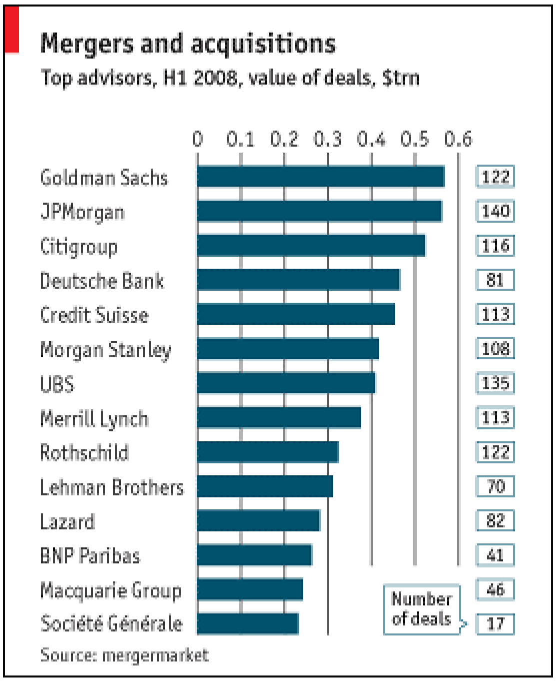
Markets

	Index Jul 9th	% change on one week	Dec 31st 2007 in local currency	Dec 31st 2007 in $ terms
United States (DJIA)	11,147.4	-0.6	-16.0	-16.0
United States (S&P 500)	1,244.7	-1.3	-15.2	-15.2
United States (NAScomp)	2,234.9	-0.7	-15.7	-15.7
Japan (Nikkei 225)	13,052.1	-1.8	-14.7	-11.1
Japan (Topix)	1,285.5	-1.2	-12.9	-9.2
China (SSEA)	3,063.6	+10.2	-44.5	-40.9
China (SSEB, $ terms)	221.0	+6.4	-43.3	-39.6
Britain (FTSE 100)	5,529.6	+1.9	-14.4	-14.9
Canada (S&P TSX)	13,610.8	-3.0	-1.6	-4.0
Euro area (FTSE Euro 100)	1,042.1	+1.1	-24.2	-18.5
Euro area (DJ STOXX 50)	3,342.5	+1.6	-24.0	-18.3
Austria (ATX)	3,793.3	-0.2	-15.9	-9.6
Belgium (Bel 20)	3,086.6	+0.2	-25.2	-19.5
France (CAC 40)	4,339.7	+1.0	-22.7	-16.8
Germany (DAX)*	6,386.5	+1.3	-20.8	-14.8
Greece (Athex Comp)	3,403.8	+6.7	-34.3	-29.3
Italy (S&P/MIB)	28,771.0	-0.7	-25.4	-19.7
Netherlands (AEX)	410.8	+0.6	-20.3	-14.3
Spain (Madrid SE)	1,291.1	+0.9	-21.4	-15.4
Czech Republic (PX)	1,455.2	-1.1	-19.8	-2.2
Denmark (OMXCB)	380.4	-2.0	-15.2	-8.8
Hungary (BUX)	20,819.8	+3.0	-20.6	-6.6
Norway (OSEAX)	512.2	-3.6	-10.1	-4.5
Poland (WIG)	40,003.1	-1.0	-28.1	-15.0
Russia (RTS, $ terms)	2,178.9	-3.4	-9.1	-4.9
Sweden (Aff.Gen)	264.9	-0.3	-22.2	-16.2
Switzerland (SMI)	6,921.4	+1.1	-18.4	-10.4
Turkey (ISE)	35,603.3	+6.1	-35.9	-38.4
Australia (All Ord.)	5,089.4	-2.3	-20.7	-13.5
Hong Kong (Hang Seng)	21,805.8	+0.5	-21.6	-21.6
India (BSE)	13,964.3	+2.2	-31.2	-37.1
Indonesia (JSX)	2,286.0	-3.9	-16.7	-14.8
Malaysia (KLSE)	1,139.8	-1.2	-21.1	-19.6
Pakistan (KSE)	11,796.5	-2.7	-16.2	-27.7
Singapore (STI)	2,917.6	+0.4	-15.8	-11.0
South Korea (KOSPI)	1,519.4	-6.4	-19.9	-25.4
Taiwan (TWI)	7,048.3	-4.2	-17.1	-11.6
Thailand (SET)	721.1	-5.1	-16.0	-15.8
Argentina (MERV)	1,947.8	-4.2	-9.5	-5.4
Brazil (BVSP)	59,535.0	-2.6	-6.8	+3.1
Chile (IGPA)	13,700.6	-1.1	-2.7	-3.3
Colombia (IGBC)	9,071.6	+0.8	-15.2	-0.7
Mexico (IPC)	28,095.8	-2.0	-4.9	+0.8
Venezuela (IBC)	38,923.7	+3.8	+2.7	-34.2
Egypt (Case 30)	9,510.0	-5.3	-9.2	-6.3
Israel (TA-100)	931.7	-3.6	-19.3	-3.4
Saudi Arabia (Tadawul)	8,998.3	-5.0	+13.4	+13.4
South Africa (JSE AS)	28,009.4	-4.4	-3.3	-14.0
Europe (FTSEurofirst 300)	1,181.2	+1.1	-21.6	-15.6
World, dev'd (MSCI)	1,361.7	-1.0	-14.3	-14.3
Emerging markets (MSCI)	1,037.0	-1.9	-16.7	-16.7
World, all (MSCI)	344.4	-1.1	-14.6	-14.6
World bonds (Citigroup)	770.3	+0.3	+5.5	+5.5
EMBI+ (JPMorgan)	431.8	+0.5	-0.4	-0.4
Hedge funds (HFRX)	1,296.1	-1.0	-2.5	-2.5
Volatility, US (VIX)	25.2	25.9	22.5	(levels)
CDSs, Eur (iTRAXX)†	100.0	-5.0	+97.6	+112.6
CDSs, N Am (CDX)†	143.7	-3.1	+64.1	+64.1
Carbon trading (EU ETS) €	26.1	-6.0	+17.2	+26.1

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

Mergers and acquisitions

Jul 10th 2008
From The Economist print edition



Goldman Sachs only just retained first place in the league table of advisers on mergers and acquisitions during the first half of this year, according to mergermarket, a research group. Whereas Goldman advised on deals worth $567 billion, JPMorgan, helped by its takeover of Bear Stearns, advised on $561 billion, climbing from fourth to second place in the rankings based on the value of deals (though JPMorgan advised on more tie-ups than Goldman did). As the size of Europe’s M&A deals grows, two European banks—Deutsche Bank and Credit Suisse—pushed their way into the top five at the expense of Morgan Stanley and Merrill Lynch. CICC is the first Chinese bank to break into the top 20.